January 2002
IMF Country Report No. 02/4

Vietnam: 2001 Article IV Consultation and First Review Under the Poverty Reduction and Growth Facility and Request for Waiver and Modification of Performance Criteria—Staff Report; Staff Statement; Public Information Notice; News Brief; and Statement by the Executive Director for Vietnam

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2001 Article IV Consultation and First Review Under the Poverty Reduction and Growth Facility and Request for Waiver and Modification of Performance Criteria, the following documents have been released and are included in this package:

- the staff report for the 2001 Article IV consultation and first review under the Poverty Reduction and Growth Facility and Request for Waiver and Modification of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on **September 7, 2001**, with the officials of Vietnam on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on November 7, 2001.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;

- a staff statement of November 21, 2001, updating information on recent economic developments;

- the Public Information Notice (PIN) and a News Brief summarizing the **views of the Executive Board as expressed during the November 21, 2001 Executive Board discussion** of the staff report that concluded the Article IV consultation and completed the first review;

- a statement by the Executive Director for Vietnam.

The document(s) listed below have been or will be separately released.

Letter of Intent*
Memorandum of Economic and Financial Policies*
Selected Issues Paper and Statistical Appendix

* May also be included in Staff Report

The policy of publication of staff reports and other documents by the IMF allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to Publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623 7430 • Telefax: (202) 623 7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

VIETNAM

Staff Report for the 2001 Article IV Consultation and First Review Under the Poverty Reduction and Growth Facility and Request for Waiver and Modification of Performance Criteria

Prepared by the Asia and Pacific Department
(In consultation with Fiscal Affairs, Legal, Monetary and Exchange Affairs, Policy Development and Review, Statistics, and Treasurer's Departments)

Approved by R. Anthony Elson and Shigeo Kashiwagi

November 7, 2001

- Discussions for the first review under the PRGF arrangement and the 2001 Article IV consultation were held in Hanoi and Ho Chi Minh City during August 22–September 7, 2001. The staff team comprised Ms. Puckahtikom (head), Messrs. Cowen and Unteroberdoerster (all APD); Ms. Thacker (PDR); Mr. Kinoshita (FAD); and Mrs. Villar (staff assistant, APD). The mission was assisted by Mrs. Adams (senior resident representative) and overlapped with an MAE team on bank restructuring and Bank staff in its informal review of the Poverty Reduction Support Credit.

- The mission met with Deputy Governors Huong and Tuan of the State Bank of Vietnam, Vice Chairman Thong of the National Steering Committee for Enterprise Reform, and other senior officials dealing with economic and financial matters.

- In concluding the last Article IV consultation on July 7, 2000, Executive Directors stressed that for Vietnam's economic recovery to be sustainable, the pace of structural reforms needed to be accelerated in the context of a broad-based program. Subsequently, a three-year PRGF arrangement for SDR 290 million (88 percent of quota) was approved by the Executive Board on April 13, 2001.

- Despite recent improvements, Vietnam's statistical system needs upgrading. STA is providing technical assistance and the authorities are considering participation in the General Data Dissemination System. The authorities intend to publish this report and the Supplementary Memorandum of Economic and Financial Policies in support of the first PRGF review.

- This report is a team product prepared under the direction of Chanpen Puckahtikom.

Contents | Page

Contents Page

EXECUTIVE SUMMARY

Economic performance has been positive so far in 2001, under the first-year PRGF-supported program. Despite slowing exports, real GDP growth has been relatively robust, inflation subdued, and the external position has strengthened. Macroeconomic policy implementation has been broadly on track, characterized by a prudent fiscal stance, credit restraint (including for the 200 large state-owned enterprise (SOE) debtors), and a more flexible exchange rate management.

The record on structural policy implementation has been uneven. Effective steps have been taken to ease entry for the private sector and trade reform measures have been more ambitious than programmed. However, there have been slippages in reforming the state-owned commercial banks (SOCBs) and SOEs.

All but two of the end-June quantitative benchmarks and performance criteria were observed. Waivers are justified for the nonobservance of the performance criteria on bank credit to SOEs and on net international reserves and also with respect to the end-September structural performance criterion on bank audits, since the breaches were due to temporary factors and the underlying policies remained consistent with program understandings.

The authorities are taking corrective steps and pursuing a policy agenda aimed at sustaining growth and protecting macroeconomic stability. The macroeconomic framework has been revised to take into account the weaker global outlook. As a basis for completing the first PRGF review, this agenda is centered on the following policy elements:

- **On the macroeconomic side**, (i) a cautiously supportive fiscal stance, providing for a significant spending boost in the remainder of 2001 and for a slight easing in 2002, essentially through automatic stabilizers; (ii) continued credit restraint, mainly to stem nonperforming loans in the SOCBs, which is critical for strengthening the medium-term fiscal position as well as keeping inflation in check; and (iii) adequate flexibility in exchange rate policy to help adapt to external shocks.

- **On the structural side**, more vigorous implementation in the critical areas of (i) SOCB reform, by adopting and executing restructuring plans for the four large banks and subjecting these banks to a closer and more transparent oversight by the State Bank of Vietnam; and (ii) SOE reform, by rephasing the reform timetable within the original three-year targets, and taking decisive steps to speed up equitization and strengthen its framework. Steady implementation of measures to promote private sector development and trade liberalization should also help offset any negative impact of SOCB/SOE reform in the near term.

Good progress is being made in the preparation of a poverty reduction strategy, for completion by April 2002, with respect to both the process and the analytical and policy content.

I. Introduction

1. **In the attached letter dated November 7, 2001**, together with the Supplementary Memorandum of Economic and Financial Policies (MEFP) (Attachment I), the government of Vietnam requests completion of the first PRGF review, waivers for the nonobservance of two quantitative performance criteria for end-June and one structural performance criterion for end-September, and modification of one performance criterion for end-December 2001. In support of these requests, the Supplementary MEFP reviews progress made so far under the first-year PRGF program and sets out the policies to be implemented in the remainder of the first year through June 2002. A second disbursement (SDR 41.4 million) is conditioned on the completion of the first review and compliance with end-June quantitative performance criteria and with the end-September structural performance criterion.[1] Vietnam's reform effort is also being supported by the World Bank's Poverty Reduction Support Credit (PRSC), in an amount of US$250 million, approved in June 2001 (Annex II). The Interim Poverty Reduction Strategy Paper (EBD/01/32) underpins Vietnam's economic program for both the PRGF and the PRSC credits.

II. Performance under the Program in 2001

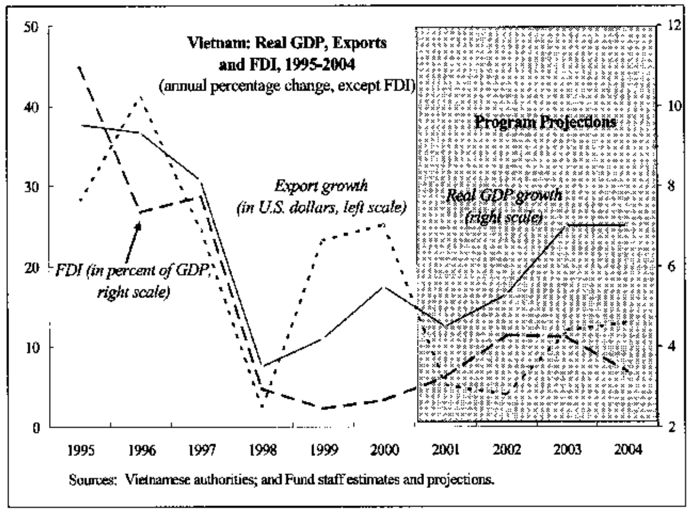
2. **The PRGF-supported program is aimed at restoring Vietnam's growth closer to potential and reducing poverty**, through boosting private investment and competitiveness of the economy. Along the lines endorsed by Executive Directors in concluding the 2000 Article IV consultation, key program elements include the maintenance of macroeconomic stability, accelerated reforms of state-owned commercial banks (SOCBs) and enterprises (SOEs), the promotion of private sector development, and liberalization of the exchange and trade regimes.

3. **Macroeconomic objectives for 2001 under the first-year program** included achieving a real GDP growth of at least 5 percent and keeping inflation under 5 percent (Table 2). Despite an envisaged weakening in global demand, the external current account was targeted to be in balance and gross reserves to rise to US$3.6 billion (or 8¼ weeks of next year's imports) at year-end.

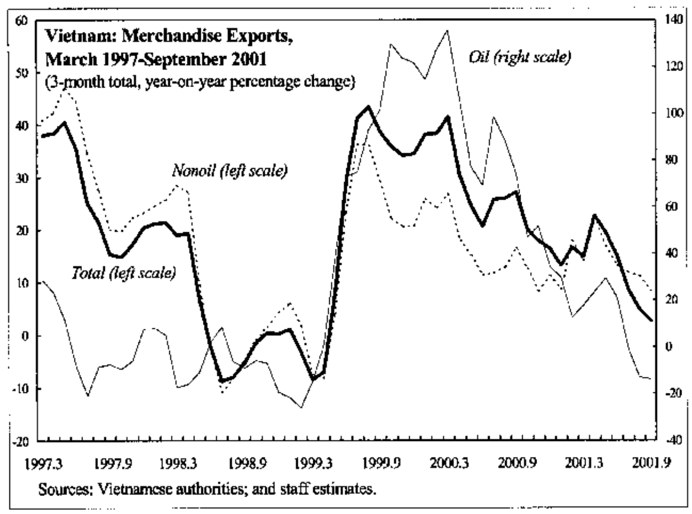
---

[1] Vietnam's outstanding use of Fund resources amounted to SDR 257.8 million (78.3 percent of quota) as of September 30, 2001. Assuming full disbursements as scheduled under the PRGF arrangement, Vietnam's outstanding use of Fund resources would amount to SDR 344.4 million (104.6 percent of quota) at end 2004 (Table 1).

4. **Developments in the first nine months of 2001 were satisfactory and consistent with these objectives.** Available key indicators, such as retail sales and industrial production, point to continued growth in real GDP, albeit at a slower pace than the corresponding period in 2000 (Box 1). Activity has been driven by domestic demand, including a pick up in private investment following improved business sentiment. Export growth progressively slowed to 10 percent in the first nine months of 2001, from 25 percent in 2000, with weak performance for manufactured exports and depressed non-oil commodity prices. Owing to falling food prices, inflation was subdued, with core inflation (excluding food) running below 2 percent for the year ending September 2001 (Figure 1). On the external front (Figure 2), with a slowing of imports and a modest strengthening of FDI inflows, gross reserves rose to an estimated US$3.4 billion at end-September.

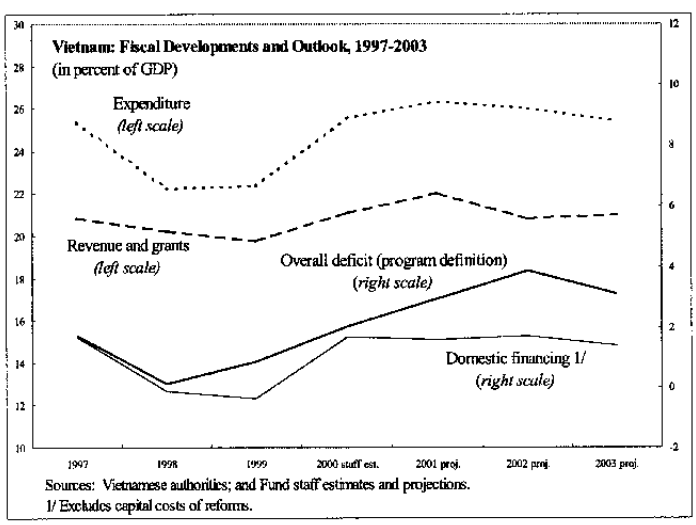


Sources: Vietnamese authorities; and Fund staff estimates and projections.



Sources: Vietnamese authorities; and staff estimates.

5. **Macroeconomic policies so far in 2001 have been implemented broadly in line with program expectations.** All quantitative performance criteria for end-June were met, except for those on bank credit to SOEs and on net international reserves (NIR) (Table 3 and paragraphs 7 and 9 below).



Sources: Vietnamese authorities; and Fund staff estimates and projections.
1/ Excludes capital costs of reforms.

6. **The fiscal stance in the first half of 2001 was less expansionary than envisaged**, with the overall deficit (excluding onlending) estimated at 1½ percent of GDP on an

Box 1. Vietnam: Growth Performance and Outlook

Real GDP growth under the program is currently projected at 4¾ percent in 2001, compared with 5½ percent in 2000. This is down slightly from the original program projection of 5 percent,[1] which already anticipated some weakening in the external environment. Following the September 11 events, a further weakening is likely mainly through a slump in manufactured exports (footwear and garments and electronic goods, which will likely show little growth in 2001) and a temporary dampening of investor sentiment.

The moderation of growth in 2001 reflects several supply side factors. Agricultural production has not been as robust as in recent years, which witnessed record harvests. Official estimates put growth in agricultural output at 2¼ percent in the first nine months of 2001, compared with 3¾ percent in the same period last year. Rice output is expected to be 2 percent lower this year, which is being offset by strong growth in non-rice staples and coffee production. **Industrial output** has been growing at a slightly slower pace than in 2000, but mainly for the domestic market and in part to support **construction activity**. The **service sector**, while is still relatively strong, has been affected by the slump in rural incomes—**agricultural incomes** have suffered owing to low world commodity prices, which for rice and coffee have fallen by an average of 15 and 40 percent, respectively, in the first nine months of 2001 compared with last year. Overall, **retail sales growth** has fallen by one-half so far this year to 9 percent.

On the demand side, consumption growth has eased in 2001, affected by rural income and evidenced by lower than anticipated growth in imports of finished goods. **Investment demand** has been buoyed by low interest rates, the creation of a large number of small and medium-sized enterprises, government capital spending, and a rise in **FDI**. Despite the slowdown in external demand, **net export growth** is still expected to be only slightly negative in light of sizeable increases in the volume of coffee exports, as well as crude oil and marine products.

Vietnam: Contribution to Real GDP Growth
(In percentage points of GDP growth)

	1993-97 Average	1998	1999	2000 Est.	2001 Projected	2002 Projected
Consumption	6.3	4.4	1.8	7.1	2.2	5.5
Investment 1/	4.8	-3.8	-0.3	4.4	2.0	3.4
Of which: gross capital formation	4.5	-4.3	-0.3	4.1	2.9	3.5
Of which: FDI	2.0	-5.0	-0.5	0.3	1.0	1.7
Net exports 2/	-2.3	2.9	2.7	-6.1	0.5	-3.6
Real GDP growth	8.8	3.5	4.2	5.5	4.7	5.3

Source: Staff estimates and projections.

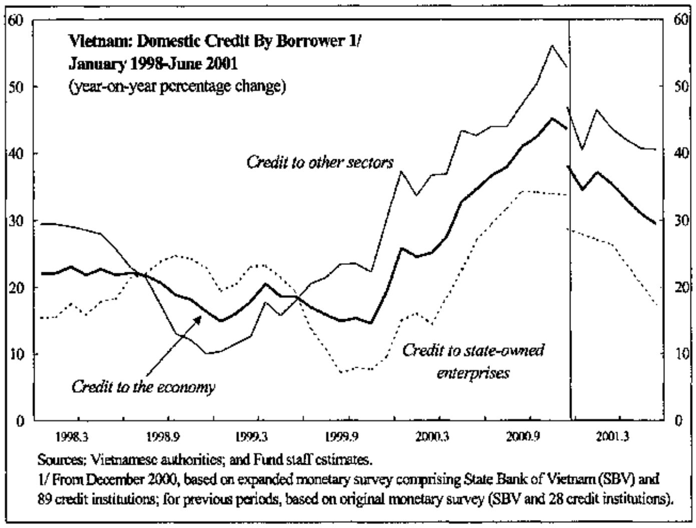
1/ Includes changes in inventories.
2/ Includes statistical discrepancy between expenditure- and production-based GDP.

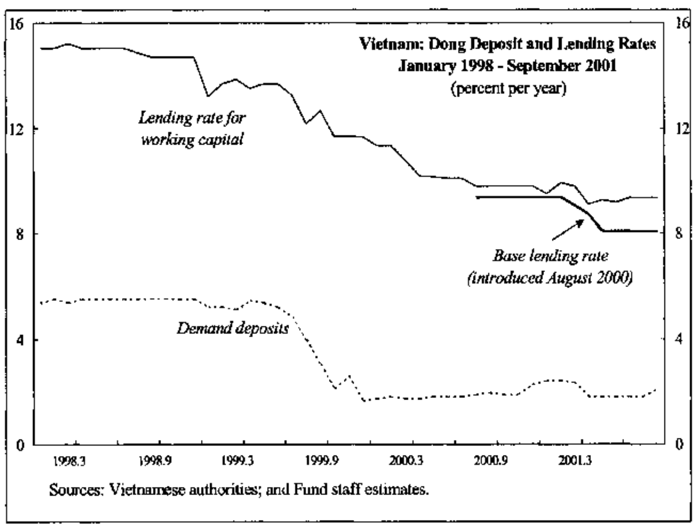
Looking ahead to 2002, growth is projected to pick up to 5¼ percent, on the strength of a moderately expansionary fiscal policy, including double-digit growth in public capital investment; a further expansion of private sector activity (see Box 3); and the positive impact of the new bilateral trade agreement with the U.S. Also, FDI flows are expected to rise substantially in 2002 as new oil and gas projects enter their full implementation phase. Compared with the original program projections, the growth outlook for 2002 has been scaled back (from 6 percent earlier) owing to an anticipated persistence of a weaker and more uncertain external environment well into next year. In particular, non-oil export growth (in U.S. dollar terms) has been reduced from 17 percent to 9 percent—slightly below expected growth in 2001.

Downside risks to the outlook arise from a lengthier and deeper global slump, weaker commodity prices, and an even lower crude oil price (now projected to average US$22 per barrel), which could also affect new investment in the energy sector. While implementation of SOE and trade reforms could have some temporary dislocation, any prolonged slippage in the overall reform agenda will weaken investor confidence as well as prospects for a sustained recovery.

[1]The official projection of real GDP growth in 2001 has also been marked down recently by about ½ percentage point to 7 percent.

annualized basis, compared with 2¾ percent programmed for the year (Table 4). This outcome reflected stronger-than-expected revenue performance, mainly on account of non-oil sources. More specifically, VAT collection was buoyant due to increases in the volume of taxable imports and the expansion of the tax base to capture newly registered enterprises (see paragraph 11). In addition, expenditure was well below budget, particularly for structural reforms and for capital projects, due to the slow pace of implementation; recurrent spending for health and education was broadly on target, at 51 percent of the amount originally budgeted for the year. Domestic financing was avoided and the performance criterion on bank credit to government was observed with a comfortable margin.





7. **Credit policy has been restrained as programmed,** reversing the trend of the last two years. Credit growth slowed from 38 percent at end 2000 to 29 percent by end-June, close to the programmed 28 percent (Table 5 and Figure 3). This deceleration reflected tighter dong liquidity, as well as a firmer policy stance of the State Bank of Vietnam (SBV), especially starting in the second quarter of the year. However, the March benchmarks for net domestic assets (NDA) of the banking system and for bank credit to SOEs were exceeded, on account of subsidized credit through SOEs for crop purchases to support farm prices for coffee and rice.[2] To rein in credit and ease the pressure on the exchange rate, during

[2] In accordance with Prime Ministerial Decision No. 233/2001 (March 6, 2001), Vietnam Southern Food Corporation and other SOEs have obtained bank credit to buy up to one million metric tons of rice and 240 thousand metric tons of coffee. This credit is on commercial terms, with a maturity of one year, and the government is providing a subsidy to cover 70 percent of interest costs for coffee purchases. The interest subsidy scheme for rice purchases expired in September 2001. The aim is to stabilize farm prices and thus support farm incomes in the face of a downturn in world prices.

the period May–September, the authorities avoided matching cuts in U.S. interest rates on the domestic base lending rate (following rate cuts totaling 1¼ percentage points early in the year). SBV refinancing was also kept in check. As a result, credit growth moderated and the end-June performance criterion on NDA was met. However, the end-June performance criterion on bank credit to SOEs was missed by D 1.0 trillion (1.3 percent of outstanding SOE bank credit), again owing to financing for crop purchases amounting to D 2.5 trillion.

8. **Interest rate policy has been further rationalized.** With the introduction of the base rate mechanism in August 2000, the ceilings on dong lending rates were replaced with bands above the base rates of 4 percent for short-term loans and 6½ percent for medium-term loans. Actual rate developments suggest that this mechanism has provided adequate flexibility in the current low inflation and interest rate environment. Also, the cap on foreign currency lending rates was lifted in June 2001, allowing banks to better price risks.

9. **Since May 2001, exchange rate management has been more flexible.** Official reserves came under pressure in March–April, in the face of depreciating regional currencies, and the March benchmark for NIR of the SBV was missed. Since May, however, the policy stance has been more flexible, so that by end-September, the dong had depreciated against the U.S. dollar from the beginning of the year by a total of 3½ percent (2 percent in real effective terms). Moreover, to boost confidence, the foreign exchange surrender requirement was reduced in May from 50 to 40 percent. With these changes, reserve developments have largely been brought back on track, although the end-June performance criterion for NIR was missed, in large part reflecting a delayed PRSC disbursement.

10. **Trade measures have been more ambitious than programmed.** In particular, the authorities announced in April 2001 a five-year trade regime, in a break from the past practice of announcing only annual programs (Box 2). The announced timetable for removal of quantitative restrictions (QRs) for five out of eleven items has been advanced significantly. Also in May 2001, QRs on five items were removed ahead of schedule.

11. **Recent steps to promote private sector development have also proved effective.** Reflecting decisive implementation of the Enterprise Law, which was aimed at easing entry for private businesses (Box 3), the number of small and medium-sized enterprises (SMEs) grew by an estimated 60 percent in the 20 months from end-2000, with total registered capital equivalent to 6 percent of GDP. Also, following amendments of the Foreign Investment Law, FDI is gradually reviving, beginning with large projects in the energy sector and more recently in smaller projects.[3]

---

[3] The Nam Con Son gas project and the two (first ever) build-operate-transfer (BOT) projects in power generation are expected to result in FDI inflows of US$2.6 billion during 2001–03. In addition, based on official estimates, FDI commitments grew by 30 percent in the first half of 2001 in terms of new projects compared with a year ago.

Box 2. Vietnam: Recent Progress in Trade Reforms

Vietnam has made progress in liberalizing its trade regime since 2000. Under the PRGF-supported program adopted in April 2001, the authorities committed to taking a number of steps to further open Vietnam's markets. Recent actions indicate that trade liberalization is progressing faster than expected under the program. In particular:

- The announced timetable for removal of quantitative restrictions (QRs) for three of the six items covered under the PRGF-supported program (steel, vegetable oil, and construction glass) has been advanced by one year to end-2001.
- Out of the five items remaining subject to QRs after 2003 (and not covered under the PRGF-supported program), the timetable for QR removal on a subset of two items (automobiles and motorcycles) has been advanced to end 2002.
- Out of eleven items subject to restrictions, QRs on five (alcohol, ceramic and granite tiles, clinker, paper, and 10–16 passenger vans) were removed in May 2001, ahead of schedule.

A Five-Year Import-Export Regime (2001–05) was announced in April 2001. This provides a road map for tariff reduction, QR removal, and other trade measures. Unlike previous years when the trade regime was announced annually, the five-year strategy allows affected traders and enterprises to work in a more predictable and longer-term framework. Under the new regime, and in addition to the above measures:

Vietnam: Schedule for QR Removal, 2001-03

Item or group	Original date	Actual or revised date
Paper	2001	Removed May 1, 2001
Clinker and cement		
Clinker	December 31, 2001	Removed May 1, 2001
Cement	December 31, 2002	No change
Construction white glass	December 31, 2002	December 31, 2001
Granite and ceramic tiles	December 31, 2002	Removed May 1, 2001
Remaining steel products	December 31, 2002	December 31, 2001
Vegetable oil	January 1, 2003	December 31, 2001
Alcohol	Not scheduled for removal	Removed May 1, 2001
Motorcycles (new) and certain parts	Not scheduled for removal	December 31, 2002
Passenger vans		
10-16 seats	Not scheduled for removal	Removed May 1, 2001
Up to 9 seats	Not scheduled for removal	December 31, 2002

Source: Prime Minister Decision 46/2001/QD-TTg on the management of import and export of goods in the period 2001-2005.

- On the export side, traders are free to export a large array of goods, with the exception of (i) certain specified goods (weapons, antiques, drugs, wildlife and scarce species, and wood from natural forests); (ii) goods that are subject to licensing requirements (textiles and garments subject to quotas and goods subject to international treaties between Vietnam and its trading partners); and (iii) items that are subject to special controls (scarce forest plants and certain vegetable and animal species).
- Quotas on rice exports have been eliminated and anyone registered to export food and agriculture-related goods can now export rice freely.
- Garment and textile quotas will continue to be announced (currently 25 percent of the quotas is auctioned off), and will be increased annually and eliminated over the medium term.
- On the import side, traders can import freely any goods, except (i) items that are banned (weapons, firearms, and other hazardous materials; cigarettes, cigars, and other tobacco products; used consumer goods and materials and equipment; and most left-hand drive vehicles); and (ii) goods subject to licensing requirements (for most commodities, such requirements will be removed by 2005, except on sugar) or under special controls.

Under AFTA, on June 6, 2001, the government issued Ordinance No. 28 announcing changes in tariff lines consistent with the commitments under AFTA. These changes are effective from January 1, 2001:

- 713 items have been transferred from the Temporary Exclusion List (TEL) to the Inclusion List (IL), leaving 1,200 items still in the TEL (under AFTA all items are expected to be moved to the IL by 2003).
- For the items in the IL list totaling 4,986 items, 65 percent are subject to a tariff rate of 0–5 percent and the remaining 35 percent to a tariff rate of 5–20 percent (under AFTA tariffs on 97 percent of tariff lines will be reduced to at most 20 percent by 2003 and 0–5 percent by 2006).

The bilateral trade agreement with the United States was ratified in late 2001, and is expected to lead to a substantial increase in Vietnam's exports to the United States.

With respect to the WTO, bilateral negotiations are expected to begin before end-2001. An interministerial committee is preparing documents to be circulated to WTO members in this regard.

Box 3. Vietnam: Private Sector Development and State-Owned Enterprise Reform

The private sector accounts for around 40 percent of GDP in Vietnam (compared with 50 percent in China), but mainly in agriculture and for only one-third of industrial output. Recent World Bank studies indicate that small to medium-sized enterprises (SMEs) will need to contribute a much larger share of economic activity if Vietnam is to sustain real GDP growth at 6–8 percent. Private sector activity had been constrained by an entrenched bureaucracy, a non-transparent tax and administrative regime, and an uneven playing field in terms of market access, credit availability, and operating costs. **Recent actions to accelerate private sector development** include passage of the new Enterprise Law and amended Foreign Investment Law in 2000; adoption of a three-year state-owned enterprise (SOE) reform framework that provides for equitization; and implementation of trade opening measures (see Box 2).

Under the new Enterprise Law, business licensing requirements in 145 (out of 400) sub-sectors were lifted in 2000, making establishment of private firms considerably easier. Decree 30, also issued in 2000, led to revocation of a further 61 licenses and permits to ease entry under the Enterprise Law. Under the Bank's PRSC, a condition for second tranche release is the removal or modification of business licenses in an additional 50 sub-sectors, which is expected by end 2001. Business registration costs also have been cut significantly and the approval process shortened. As a result, **an estimated 26,000 SMEs had been registered by end-August 2001** employing more than 500,000 workers. This represents a 60 percent increase in registered enterprises since January 2000. Total registered capital is equivalent to US$2 billion, or 6 percent of GDP. **The Enterprise Law will be supplemented with a decree on SMEs** by end 2001. Existing provisions in the Enterprise Law on the use of land-use rights as collateral for bank loans will need stronger enforcement and greater transparency to ease credit conditions for SMEs. The liberalization of interest rates on bank lending since August 2000 should also help ensure better access of SMEs to bank credit.

Amendments to the Foreign Investment Law sought to improve the climate for FDI by focusing on: (i) substituting business registration for licensing for export-oriented foreign-invested enterprises (FIEs); (ii) allowing FIEs to buy foreign exchange to make payments within certain limits; (iii) permitting foreign bank branches operating in Vietnam to take mortgages; and (iv) providing government guarantees on certain types of infrastructure projects and encouraging investment by overseas Vietnamese. The dual price system, which also discriminates against FIEs, has been rolled back recently with a reduction in price gaps most notably on telecommunication and electricity tariffs. Under a decree adopted in August 2001, the dual pricing system is to be phased out and licensing and administrative procedures for FIEs further streamlined. **Revisions to the Land Law** are being aimed at: (i) easing local government control over allocating land and granting land-use certificates to households and enterprises; (ii) giving overseas Vietnamese the right to buy houses with attached land-use rights; and (iii) aligning compensation for nationalized lands with market value.

SOE reform: In view of the poor financial conditions and inefficiencies of many SOEs, the government adopted a five-year SOE reform plan in March 2001, with annual targets specified for 2001–03.[1] The objectives of the plan are to reduce losses and improve competitiveness. Around 1,800 out of the more than 5,500 SOEs will be subject to enterprise-specific reform measures, mostly through equitization (1,400), divestiture (140), or liquidation/closure (220). An additional 200 enterprises will face merger/consolidation. These enterprises are mainly small and medium-sized SOEs in terms of state capital (11 percent of total) and SOE debt (10 percent of total), but they account for 31 percent of total SOE employment. Under the first-year PRGF program, the targets are to equitize, divest, or liquidate/close 600–650 enterprises and merge/consolidate 80–90. **Detailed implementation of this plan is being monitored under the Bank's PRSC.**

---

[1] Details on the SOEs' financial conditions can be found in EBS/01/43 (paragraphs 26–27 and Box 4 of the staff report, and paragraphs 20–23 of the MEFP).

12. **Progress in banking reform, however, has been slow**. In particular:

- The remaining restructuring plans for three out of the four large SOCBs (Bank for Investment and Development (BIDV), Incombank (ICB), and Bank for Agricultural and Rural development (BARD)) were finalized and approved by the government in early October, three months behind schedule.
- Audits on international audit and accounting standards (IAS) are nearing completion for BIDV and BARD. However, in part because donor financing procedures proved more time consuming than expected, the structural benchmark on awarding of audit contracts for ICB and VCB was met but with a delay of two months (Table 6). The structural performance criterion on submission of a progress report on these audits was met in early October, also slightly behind schedule.
- With respect to the joint-stock banks (JSBs), licenses of four problem banks (out of 48) were withdrawn as planned in June 2001, bringing to seven the number of bank closures/mergers.

13. **Delays have also been experienced in SOE reform,** reflecting resistance from vested interests. To bolster the political backing for this reform, the government's three-year plan adopted in March 2001 was considered by the central committee of the party in late August and was published in general terms in September. In this uncertain setting, during the first eight months of 2001, only 93 SOEs were equitized, compared with the target of 450–500 set for 2001 under the three-year plan. At the same time, however, bank credit and budget support to the targeted 200 large SOE debtors have been curbed, so that the program benchmark was met for end-June.

Vietnam: Debt Monitoring System for 200 Large Debt SOEs, December 1999-June 2001

	1999	2000		2001	
	Dec.	Dec. Original	Dec. Revised	March	June
(In trillions of dong)					
Total	28.7	31.0	35.3	36.9	34.3
of which: bank debt	26.5	29.0	30.1	31.3	32.1
Central	21.4	21.9	26.5	27.8	25.6
Local	7.3	9.1	8.8	9.1	8.7
(Change since beginning of year, in trillions of dong)					
Total	...	2.4	6.6	1.6	-1.0
(program benchmark)	...	...	...	0.6	1.2
Central	...	0.6	5.2	1.3	-0.9
Local	...	1.8	1.5	0.3	-0.1
(Percentage change since beginning of the year)					
Total	...	8.3	23.1	4.4	-2.8
of which: bank debt	...	9.4	13.5	4.0	6.6
Central	...	2.7	24.1	4.8	-3.5
Local	...	24.6	20.1	3.5	-0.8

Source: Ministry of Finance estimates.

III. Report on the Discussions

14. **The discussions focused on near-term macroeconomic policies and the main structural measures** that are key to achieving the program targets for 2001 and over the medium term. At the time of the discussions, the impact of the global slowdown was already being felt on Vietnam's economy, and the authorities agreed with the staff that steady implementation of macroeconomic policies and accelerated structural reforms would cushion this downturn. Moreover, recognizing the slippages in carrying out SOCB and SOE reforms, the authorities initiated corrective efforts, including some critical measures taken as prior actions for completing the first PRGF review. Finally, to strengthen internal coordination, a high level inter-ministerial committee has been set up to track progress under the PRGF program, jointly with the PRSC program.

A. The Macroeconomic Framework for 2001–2002

15. **The program's near-term macroeconomic framework has been revised, reflecting the worsening external outlook since the adoption of the original framework in early 2001.** Factoring in the more recent deterioration since the September 11 events, Vietnam's export and FDI prospects are now weaker than originally expected. As a result, real GDP growth for 2001 has been scaled back to 4¾ percent from the programmed rate of 5 percent, and to 5¼ percent for 2002, instead of 6 percent as initially envisaged (Table 7). End-period inflation should stay under 2 percent in 2001 and remains targeted under 5 percent in 2002, because of the potential impact of greater exchange rate flexibility and in the absence of a major tightening of financial policies. The external position is now set to be less favorable, but the current account deficit for 2002 would still be financeable at 2 percent of GDP (Table 8), and official reserves are targeted to increase to 9 weeks of import cover at end-2002, in line with the original program objective.[4] The agreed program provides for a basic policy framework that is responsive to the more adverse outlook. However, given the downside risks (see also paragraph 22), the staff will work with the authorities in the context of the next informal quarterly review in early December to assess the impact of any further deterioration in the outlook and refine the appropriate policy adjustments as necessary. Beyond 2002, the staff's medium-term projections remain largely unchanged from the time of Board approval of the PRGF arrangement.

Fiscal policy

16. **Based on performance so far and prospects for the remainder of the year, the authorities were confident that the programmed fiscal targets for 2001 could be broadly achieved.** For the second half of 2001, revenue performance is expected to remain favorable, reflecting the limited impact of falling oil prices and the newly introduced tax relief for farmers. At the same time, government expenditure is projected to rise, due primarily to a major (and partly seasonal) boost in capital spending on infrastructure, mainly in rural areas. To a limited extent, expenditure is also projected to increase on account of the introduction of interest subsidies for farm price support loans and bonus schemes to promote commodity exports where prices have been especially depressed. The authorities shared the staff's view that these measures needed to be kept modest and for a limited duration, and that in order to ease the difficulties in the rural sector, it would be preferable to step up spending on economic and social infrastructure. In addition, the scope of the bonus schemes for exports would need to be contained, with reliance placed instead on greater exchange rate flexibility. Overall, the budget deficit could be kept below 3 percent of GDP, close to the program target, and domestic bank financing capped at ½ percent of GDP as programmed.

---

[4] The revised medium-term balance of payments projections are discussed in Annex IV.

17. **For the 2002 budget, the authorities are committed to a continued cautiously accommodative framework, broadly consistent with gradually stabilizing public sector debt over the medium term**. More generally, in order to protect fiscal sustainability, the authorities recognized that accelerating SOCB and SOE reforms as well as strengthening tax administration and policy will be critical.[5] Preparation for next year's budget is underway, with significant uncertainties about the external outlook, in particular oil prices.[6] To help support economic activity and in view of Vietnam's relatively manageable public sector debt burden, it was agreed that there was scope for a further slight easing of the fiscal stance within the program's medium-term fiscal framework, essentially by allowing for automatic stabilizers. On this basis, the overall government deficit is targeted to rise to 4 percent of GDP (from the original target of 3 percent), while domestic bank financing would be limited to 0.6 percent of GDP. Based on conservative assumptions, revenue and grants could fall to 20¾ percent of GDP, after taking into account modest improvements arising from a strengthening of tax administration being supported with technical assistance from the Fund.[7] The authorities also reaffirmed their intention to revise the VAT law, by reducing the number of VAT rates and exemptions, to be made effective for the year 2003 budget. Spending on productive and priority social sectors would be maintained, including amounts needed to support SOCB and SOE reforms and related safety nets. Altogether, expenditure could be kept at 24¾ percent of GDP, including ¾ percent of GDP to cover the envisaged current costs of structural reforms.[8]

18. **The authorities are taking steps to strengthen expenditure management and fiscal transparency, but further efforts are needed**. Consistent with the 2000 Public Expenditure Review, budget allocations have been raised for operations and maintenance for roads and irrigation, and total poverty-reducing spending is projected to increase by 1 percentage point of GDP to about 7 percent of GDP in 2002, compared with the average

[5] For an updated assessment of Vietnam's fiscal sustainability, see the Selected Issues paper. In order to stabilize the public sector debt at 72 percent of GDP over the medium term, bank credit to SOEs (and related NPL growth) needs to be curtailed and the overall government deficit gradually reduced, mainly through strengthening revenue performance.

[6] A reduction in oil prices of US$1 per barrel would reduce government revenue by an estimated ¼ percentage point of GDP.

[7] See the Selected Issues Paper for an outline of the weaknesses in tax administration identified by the recent FAD technical assistance.

[8] The capital cost of structural reforms could run as high as 3½–4 percent of GDP in 2002, largely for SOCB recapitalization and SOE debt absorption. Financing is expected to come from the issuance of long-term bank recapitalization bonds and from external sources. The full cost of these operations is included in the augmented deficit measure in Tables 4 and 7.

over the preceding three years. The authorities have also drawn up an action plan over the next three years to improve public expenditure management and are defining a public administrative reform strategy. In addition, under a recently approved regulation on fiscal transparency, more comprehensive budget information will be published, including detailed sectoral spending components and budgetary data at the provincial and local government levels; a website for the Ministry of Finance (MoF) has also been established allowing for a wider dissemination of budget information. The staff welcomed the progress that has been made on this front, and encouraged the adoption of additional measures to track poverty-reducing expenditures and to further enhance the transparency and efficiency of government operations.

Monetary policy

19. **Credit restraint remains a priority**, to help keep inflation low and to stem nonperfoming loans (NPLs), while ensuring adequate credit to the economy. Broadly in line with the original monetary program, a performance criterion on NDA for end-December 2001 has been set, aimed at slowing credit growth to 21 percent by year-end. The monetary program has also been extended through June 2002, containing year-on-year credit growth to 20 percent and bank credit growth to SOEs to 12 percent. This pace of credit growth follows the rapid deceleration programmed for 2001, and was judged acceptable given low inflation and the authorities' commitment to intensify efforts to strengthen credit risk management in banks, especially in SOCBs, which account for nearly all of the recent expansion in credit. The authorities intend to continue to limit SBV refinancing to rein in credit growth. Given falling global interest rates, effective October, the SBV cut its base lending rate by 60 basis points, resulting in a total rate reduction of 2 percentage points for the year so far. The current level of interest rates and the agreed limits on SBV refinancing are consistent with achieving the program's inflation and credit objectives.

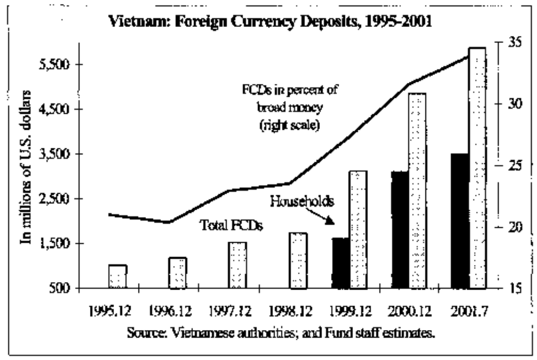
20. **Very close bank supervision is needed, in view of the recent rapid rise in foreign currency deposits (FCDs)** and the associated increase in credit risks in the banking system (Box 4). FCDs rose to 34 percent of bank deposits at end-August 2001, from 27 percent at end-December 1999, in spite of attempts to slow this trend by increasing the reserve requirement on FCDs. The staff cautioned against an administrative approach to discourage FCDs, as this could adversely affect confidence in the banking system and reintermediation, and urged close prudential supervision of foreign currency loan operations. In light of the potential volatility of FCDs, the authorities indicated that tight prudential regulations and reporting requirements were in place to ensure the liquidity and quality of counterpart foreign assets held by banks abroad.

Box 4. Vietnam: Foreign Currency Deposits

Foreign currency deposits (FCDs) have become an important feature of monetary developments in Vietnam. Measured relative to broad money, FCDs began to decline with the return to macroeconomic stability from a peak of 41 percent in 1991, but then gradually increased from about 20 percent in 1996 to 35 percent by July 2001.

Recent contributing factors

- **The lifting of regulations on the opening of foreign currency accounts in 1999 played a major role.** FCDs have nearly doubled since then to US$5.9 billion at end-July 2001, with the largest increase among households. As recorded remittances increased much more gradually, this trend would suggest reintermediation of currency previously held outside the banking system, and thus renewed confidence in banks.
- **Periodic expectations of a dong devaluation**, in part fuelled by a real appreciation of the dong since the beginning of 2000, made FCDs more attractive to investors seeking higher expected returns and better risk diversification. Since more than 80 percent of FCDs are time deposits, asset substitution or investment motives have played a primary role as opposed to currency substitution or money demand factors.
- **Rapid export growth** through mid-2000, and a **lower surrender requirement**, down from 80 percent in 1999 to 40 percent at present, were also contributing factors.
- **The virtual elimination of the dong-dollar interest rate differential** (previously in favor of dong deposits), which has helped banks' profitability but has made holding FCDs more attractive. However, the State Bank of Vietnam (SBV) has attempted to discourage banks from accepting FCDs by raising the reserve requirements on FCDs several times over the past year to 15 percent (compared with 5 percent on dong deposits).

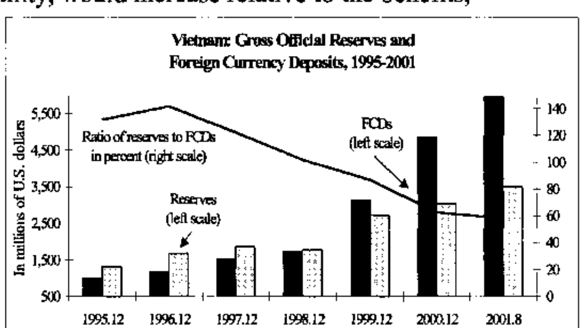


Source: Vietnamese authorities; and Fund staff estimates.

Implications and policy challenges

Rising FCDs in Vietnam at this time are indicative of reintermediation and financial deepening of the banking system. However, new challenges have arisen for monetary and exchange rate policies and banking supervision. The large share of FCDs in broad money has had the following consequences:

- **The scope for an independent monetary policy has been reduced, suggesting the need for a more flexible exchange rate regime.** As recent growth in FCDs appears to have been largely driven by asset substitution, this trend might be stemmed by greater exchange rate flexibility. This is because the costs of holding dollar assets, determined by exchange rate volatility, would increase relative to the benefits, determined by inflation volatility.
- **The SBV's ability to manage dong liquidity has become more constrained.** Also, a segmentation of the credit market has reduced the SBV's ability to control credit developments.
- **The SBV's need for addressing systemic banking sector vulnerabilities has intensified.** Supervisors need to strictly enforce existing regulations on net open foreign currency positions of banks which appear to be adequate.



Source: Vietnamese authorities; and Fund staff estimates.

To ensure that the foreign exchange risk related to FCDs is appropriately covered, the quality of banks' foreign currency assets needs to be carefully monitored. This relates in particular to foreign currency loans to SOEs with limited capacity to generate foreign currency revenues, and to foreign assets held by banks abroad. Given dominant state ownership of banks, FCDs also are a potential claim on Vietnam's official reserves and are likely to affect external vulnerability. In terms of cover, the ratio of gross official reserves to FCDs has declined substantially over the past five years to below 60 percent at end-August 2001.

External sector policies

21. **The authorities reaffirmed their commitment to a more flexible exchange rate policy, limiting intervention in the exchange market only to cope with disorderly conditions and to achieve the NIR targets of the program.** It was agreed that exchange rate management in the period since May had helped to protect competitiveness and rebuild gross official reserves, and that such an approach would continue to help the economy to adapt to external shocks. The authorities were encouraged to phase out the surrender requirement and to remove the two remaining exchange restrictions so as to enable Vietnam to accept the obligations under Article VIII within the program period.[9] Also, a prudent external debt management policy will need to continue. Under the program, the authorities are confining borrowing by the government primarily to loans on concessional terms, and are limiting government guarantees for nonconcessional debt contracted by SOEs.[10] The staff stressed the need for a careful appraisal of project viability and the extension of government guarantees to cover only the minimum necessary risk.

22. **Vietnam's economy is moderately vulnerable to a global slowdown due to its openness, with exports accounting for one-half of GDP.** This vulnerability is tempered by a broad diversification of the export structure and across trading partners. Under a more adverse scenario with a global growth in 2002 of 1.8 percent (compared with 2.7 percent in the program baseline) and an oil price of US$16 per barrel (oil exports account for 18 percent of total exports in the baseline), Vietnam would be negatively affected through weaker exports and FDI. GDP growth could be ¾ percentage point lower and external imbalances larger, including a possible need for additional balance of payments support on the order of US$300 million, or almost doubling the currently envisaged gap. Vietnam's external vulnerability to shifts in capital market sentiment remains low, given its relatively closed capital account and limited access to foreign financial markets, and comfortable debt

---

[9] Exchange measures subject to approval under Article VIII are: (i) a multiple currency practice arising from the tax on profit remittances by foreign investors; and (ii) a restriction arising from the limits on the availability of foreign exchange for payments for imports of certain commodities. Vietnam continues to avail itself of the transitional arrangements under Article XIV, Section 2, under which it maintains exchange restrictions consisting of limits on the availability of foreign exchange for certain invisible payments.

[10] The definition of the performance criterion on external debt has been modified to be consistent with the Fund's guidelines on external debt (see Annex I of Attachment II).

and reserve indicators (Table 9 and Figure 4).[11] A qualification to this assessment relates to the rising amount of FCDs noted earlier, for which risks cannot be meaningfully assessed in the absence of more detailed data on foreign assets held by domestic banks.

B. Key Structural Reforms

Private sector development

23. **The authorities have taken steps to promote private sector development in an overall strategy of making Vietnam a truly mixed market economy, with a level playing field for all enterprises**. Registration procedures for new SMEs have been streamlined, the legal framework for domestic investment is under review, and there are plans for lifting licensing requirements for additional business subsectors. Also, a decree on SMEs is being prepared and amendments to the Land Law are expected to take effect soon. The staff urged early adoption and steady implementation of these measures, especially as new private enterprises can help to sustain economic activity and offset the adverse employment impact of SOE reform in the near term.

24. **With respect to FDI, additional efforts are underway to streamline further licensing and administrative procedures for foreign-invested enterprises (FIEs)**. Local authorities, notably for Ho Chi Minh City, are being given greater autonomy to improve the investment climate and ease administrative hurdles for foreign investment projects. Nonetheless, more needs to be done to lower the cost of doing business in Vietnam, and the staff encouraged the authorities to press ahead with streamlining measures, and to adopt a relatively short timetable to phase out the dual pricing system.

Trade reform

25. **Trade reform measures are being adopted across a broad front, focusing first on removing nontariff barriers**. As noted earlier, the recently announced timetable for QR removal was more ambitious than expected. During the remainder of 2001, envisaged actions include replacing QRs for three items (steel, vegetable oil, and construction glass) with tariffs, implementing the 2001 tariff reductions under AFTA, and auctioning at least 25 percent of garment export quotas while continuing to improve the auction process. With full implementation of the schedule of QR removal and the elimination of state monopolies

---

[11] External debt is projected at 43 percent of GDP at end-2001, of which only 4 percent is short term, and reserves amounted to seven times short-term debt, as of mid-2001. A full debt sustainability analysis was last conducted for the 1999 Article IV Consultation (SM/99/102; 5/9/99). Under the recently revised medium-term macroeconomic scenario, preliminary calculations by the staff confirm the general results of the earlier DSA, i.e., assuming prudent limits on nonconcessional borrowing and continued policy reform, Vietnam's external debt would be sustainable over the medium to long term.

on trading, by the start of 2003, only two items (petroleum products and sugar) would remain subject to QRs, and Vietnam's rating on the Fund's 10-point scale of trade restrictiveness would improve substantially to 6 from the current rating of 9. Finally, preparations for entry into the World Trade Organization are well underway, with bilateral discussions slated to start by end year. The staff encouraged the authorities to advance their trade reform agenda as a means to position Vietnam to benefit from a global upturn and to foster SOE reform.

Banking reform

26. **The authorities fully recognized that vigorous and sustained efforts were needed to reform the four large SOCBs in order to allow them to play an effective role in the banking system and to reduce medium-term fiscal risks.** The recently approved restructuring plans of these banks provide a solid start to this reform process (summarized in Annex V). In consultation with the Fund and Bank staff and drawing on MAE technical assistance, the authorities are giving priority to the following agenda over the next twelve months:

- **Completing on schedule IAS audits of these banks**, as audit results would enable a realistic assessment of the size of NPLs and a more effective and transparent approach to setting and monitoring performance milestones (see below).[12] Under the current schedule, audits for three banks are to be completed by end year as envisaged, but the audit for VCB is now targeted to be completed by end-January 2002.

- **Closely overseeing the implementation of bank-specific restructuring plans, including under the operational guidelines for resolving NPLs.** To stem new bad loans and to foster SOE restructuring, these guidelines aim at providing adequate mechanisms for loan restructuring and recovery, including through effective linkages of debt relief to SOE restructuring, and for strengthening banks' credit risk management. To reinforce oversight, a special SBV unit is to become fully operational by end year, and will report to the inter-ministerial committee for SOCB restructuring.

- **Monitoring performance against milestones that have been set for individual banks** (as incorporated in bank specific SBV directive) and consistent with the principle of phased and conditional recapitalization of SOCBs over three years. These milestones include targets for NPL recovery and for loan workout efforts. Meeting the aggregate milestones for loan resolution, in particular, is a structural performance

---

[12] The average NPL ratio for the four large SOCBs on Vietnamese accounting and classification standards was reported at 10 percent as of end-July 2001. Alternative estimates based on diagnostic audits during 1996–98 suggest an NPL ratio of at least 30 percent on international classification and accounting practices.

criterion for March 2002, and satisfactory performance against the first-year milestones generally will trigger the first phase of bank recapitalization and release of the second PRSC tranche.

27. **Strengthening bank regulation and supervision remains a priority in banking reform.** As a key first step, the authorities reaffirmed their intention to revise Decision 284 by end–2001 to bring loan classification in conformity with international accounting standards. A three-year timetable has also been set to move provisioning onto the new classification standards, contingent on the availability of funding sources outside of banks. Furthermore, continued efforts will be made to consolidate the JSB system, and strengthen the financial conditions of these banks. The authorities are aiming to halve the number of JSBs through closure/merger in two years.

SOE reform

28. **Much remains to be done to accelerate SOE reform and to strengthen the framework for equitization.** The authorities indicated that, while they remain committed to achieving the original SOE reform targets within three years, a rephasing of this roadmap is now necessary in light of the delays that have been experienced, especially relating to equitization. To step up the pace of SOE reform, the staff urged publication of the rephased timetable and early adoption of implementation guidelines on SOE debt resolution and safety nets for labor redundancies (a structural benchmark). Moreover, the monitoring unit in the National Steering Committee for Enterprise Reform will need to be given full authority to oversee the implementation of SOE reform (a structural benchmark). Also, to help ensure that all relevant conditions under the Bank's PRSC for release of the second tranche by May 2002 could still be met (Table 10), the Bank staff is enhancing its monitoring of progress in this area. Finally, to strengthen the effectiveness and integrity of the equitization process, the authorities intend to lift, at the latest by end-2001, caps on shareholdings in equitized SOEs, and also to remove from an individual SOE's management the responsibility for issuing, selling, and registering shares.

29. **Steps have been taken to improve the system that was recently set up to monitor debt and budget support of 200 large SOE debtors**, in order to help strengthen SOE financial discipline. Even though the June program benchmark for these SOEs was observed, the MoF has had difficulties obtaining timely and accurate reporting from concerned SOEs. To improve this monitoring, reporting requirements have been simplified and sanctions against late reporting have been introduced.

C. PRSP and Social Impact Analysis

30. **Good progress is being made towards completing a full Poverty Reduction Strategy Paper (PRSP) by April 2002, with respect to both process and content.** To prepare this document, an inter-ministerial committee from 14 government agencies, led by the Ministry of Planning and Investment, was set up in May 2001. The authorities indicated

their intention to strengthen participation in this process, starting by consulting widely on the detailed outline of the PRSP within the government and with local communities, NGOs, and donors. Also, in order to ensure a high quality PRSP, the authorities have begun working with donors and NGOs to localize international development targets in nine main areas (creating economic opportunity, governance, infrastructure, environment, health, education, social protection, ethnic minorities, and gender equity). The Fund staff is expected to assist in costing the policies needed to attain these goals and incorporating these into the program's medium-term macroeconomic framework. The Bank is providing analytical support, including notably on the link between policies and poverty outcomes, which will help to integrate the social impact analysis of reform into the PRSP, and is assisting in designing a system for monitoring progress in poverty reduction.

IV. Program Monitoring and Technical Assistance

31. **Risks to program implementation remain considerable, given the still young consensus on the pace of reform.** To help mitigate these risks, as well as to redress the slippages so far, the program provides for significant prior actions for the completion of the first review. Also, the program is being monitored through performance criteria and benchmarks (summarized in Tables 3 and 6), and through semi-annual program reviews. In addition, the structural conditionality under the program has been reviewed, in line with the staff guidelines in this area (Box 5). To regain momentum in SOE and SOCB reforms, additional structural benchmarks and performance criteria have been introduced.

32. **The authorities are requesting waivers of the nonobservance of two end-June quantitative performance criteria and one structural performance criterion** and the modification of one end-December performance criterion. With respect to the performance criterion on bank credit to SOEs, the excess for end-June was attributable to a one-time, farm price support credit, in response to a slump in world commodity prices. A waiver would seem justified since the underlying growth in bank credit to SOEs remained on track and within the programmed limit. For the same reason, the modification of this performance criterion for end-December would be warranted. The request for waiving the nonobservance of the end-June performance criterion on NIR would also be justified as the deviation from the program path was temporary, due to a delayed disbursement, and NIR has since been on track. Similarly, the structural performance criterion on the submission of a progress report on audits of VCB and ICB was met with a two-week delay.

33. **To help address the risks in program implementation arising from Vietnam's capacity constraints**, technical assistance is being provided by MAE (in bank restructuring and supervision), FAD (in tax policy and administration), and STA (in upgrading the statistical base).

34. **A Stage One safeguards assessment was recently conducted for Vietnam**, which noted that no independent audit of the SBV's financial statements has been undertaken to

Box 5. Vietnam—Structural Conditionality

Coverage of Structural Conditionality in the Current Program

Table 6 sets out the structural conditionality (prior actions, performance criteria, benchmarks, and conditions for review) for the first and second reviews of the PRGF. These conditions are focused on reforms of the four large SOCBs, which collectively account for 75 percent of total bank assets, and of the SOEs, whose debt accounts for 30 percent of GDP (or one-half of total public sector debt) and the bulk of the nonperforming loans in the SOCBs. Both these reforms are judged to have a critical bearing on medium-term fiscal sustainability and maintenance of macroeconomic stability. To a limited extent, structural conditions also cover policies within the Fund's competence that are essential for improving growth prospects, notably in the exchange regime.

At the first PRGF review, prior actions relating to specific steps in SOCB and SOE reforms were introduced to ensure adequate progress of these reforms; progress in both these areas was envisaged to be the focus of the review, in consultation with the Bank. Additional structural benchmarks and performance criteria were also introduced to tighten monitoring as necessary to maintain the reform momentum.

Status of Structural Conditionality from Earlier Programs

The status under the last three-year ESAF arrangement (lapsed in 1997) is not readily comparable, given the gap of four years.

The status of structural conditions set under the first year PRGF arrangement (approved in April 2001) is reported in Table 6. Almost all conditions were set in the form of prior actions, relating to SOCB and SOE reforms, and trade and exchange system liberalization. Conditions in the form of structural benchmarks and performance criteria were limited to the SOCBs and exchange system, and were streamlined in coordination with conditionality under the parallel PRSC. For the first PRGF review, the one structural benchmark (on audits of two SOCBs) was subject to a three-month delay, while the structural performance criterion (also on these audits) was met with a slight delay.

Structural Areas Covered by World Bank Lending and Conditionality

Under the parallel PRSC arrangement approved in June 2001, tranche release conditions overlap with PRGF conditions in three areas—reforms of the SOCBs, the SOEs, and the trade system, but they also cover private sector development and public expenditure management (Table 9). In the overlapping areas, structural conditions have been designed to be complementary. PRGF conditions have been defined in aggregative terms, relating to the framework for or dimensions of SOCB/SOE reforms that are critical from the fiscal and overall macroeconomic standpoints. PRSC conditions have been formulated at the more detailed implementation level, for example, relating to the specific targets for and the effectiveness of equitization, the restructuring plans of three large SOEs (general corporations), diagnostic audits of selected large SOEs, and implementation of the SOCB restructuring plans and of safety nets for affected workers in restructured SOEs.

Other Relevant Structural Conditions not Included in Current Program

Further trade reforms, private sector development, and public expenditure reform are all vital for improving growth prospects and reducing poverty. These are being partly addressed by the PRSC and also in project operations supported by the Asian Development Bank. However, the coverage of trade reform is incomplete, leaving out trade policies relating to petroleum products and sugar, with medium-term macroeconomic implications, but where the Fund staff has no expertise.

date, although the SBV has committed to undergo an audit of the year 2001 financial statements in accordance with the state law. Also, the assessment identified potential weaknesses in other areas of the safeguards framework that may pose a risk to Fund resources and increase the possibility of misreporting (Annex I). Therefore, to ensure compliance with the safeguards framework, the SBV has agreed to complete by end-June 2002: (i) an audit of the 2001 financial statements by the State Auditor in accordance with International Standards on Auditing; and (ii) the publication of the post-audit financial statements and attendant audit opinion. It is also understood that additional measures would be implemented prior to the second review of the program, which would include restating the audited 2001 financial statements in accordance with International Accounting Standards. A Stage Two mission will be conducted after completion of the 2001 audit.

V. Policy Transparency and Statistical Issues

35. **Important strides have been made in the area of policy and data transparency.** The staff report (including the MEFP) in connection with the PRGF arrangement was published, and will continue to be published. A Vietnam page in the *IFS* was introduced in June 2001, and as noted earlier, more comprehensive fiscal data are being disseminated by the authorities, in addition to those published in the *Government Financial Statistics*. Continued efforts will be required, however, for Vietnam to make available to the public a broader range of statistics and more comprehensive information on policy objectives and performance.

36. **Despite recent improvements, there is considerable scope for upgrading Vietnam's statistical system.** The recent multisector statistics mission identified a number of important shortcomings (Annex VI). These include intersectoral inconsistencies in economic statistics, the practice of compiling provisional statistics before the end of the reference period (affecting in particular the accuracy of national accounts and FDI statistics), and significant classification problems in external trade data. The staff encouraged authorities to follow through with the measures recommended by STA, particularly in the national accounts area, and to take a timely decision on Vietnam's participation in the General Data Dissemination System (GDDS).

VI. Staff Appraisal

37. **Under the PRGF-supported program, Vietnam has continued its track record of sound macroeconomic management, and is making progress in implementing structural policies.** These factors have contributed to a favorable economic performance so far under the program. Despite slowing exports, economic growth in 2001 is likely to remain relatively robust, inflation is low, and the external position has strengthened. Overall indicators of fiscal, monetary, and exchange rate developments remain positive and in line with expectations. Economic activity has also been boosted by a recovery in investment, following the effective implementation of measures to promote private sector development and to open up the economy.

38. **The policy agenda under the PRGF-supported program remains challenging, however, especially given the current global downturn and the slippages that have been**

experienced in the key SOE and SOCB reform areas. Firm and steady implementation of this agenda will be critical to returning Vietnam to its growth potential and to faster poverty reduction. Pressing ahead with reform will also help Vietnam to weather the current uncertain external prospects.

39. **The government's program for the remainder of 2001 and the first half of 2002 is well focused, consistent with the program's objectives, and envisages appropriate corrective measures.** In the fiscal area, the spending boost now budgeted for the remainder of 2001 will be supportive of economic activity, while protecting the programmed deficit target. The staff endorses the budget framework for 2002, which allows for automatic stabilizers to take effect in a weaker external environment. The targeted overall deficit is consistent with stabilizing public sector debt as a ratio to GDP over the medium term. Achieving this target will require a strengthening of tax administration, to ensure adequate spending for structural reforms and associated safety nets and support for critical social and infrastructure sectors. The staff also welcomes steps to strengthen expenditure management, and encourages the adoption of additional measures to track poverty-reducing expenditures and to further enhance the transparency and efficiency of government operations. To ensure fiscal sustainability over the medium term, it will be necessary to continue a cautious budgetary stance and to accelerate SOE and SOCB reforms.

40. **Credit restraint will continue to be essential to help stem nonperforming loans and strengthen SOE financial discipline, even though inflation appears benign**. The monetary program through June 2002 aims to meet these objectives, while also providing for adequate credit to sustain private sector activity. Coupled with a more effective monitoring of the debt of and budget support to the 200 targeted large SOEs, this restrained credit stance remains key to strengthening the medium-term fiscal position. The staff also urges very close supervision of banks' foreign currency operations, in view of the potential volatility of foreign currency deposits, to limit banks' credit and liquidity risks.

41. **The staff welcomes the more flexible management of the exchange rate**, which has helped to protect Vietnam's competitiveness and external viability. Nonetheless, the exchange regime will need to be further liberalized by phasing out as soon as possible the foreign exchange surrender requirement. A prudent external debt management policy will also need to be maintained to keep medium-term external debt indicators within a sustainable range.

42. **Recent trade measures have been more far reaching than programmed** and should be implemented firmly and steadily to help position Vietnam to benefit fully from any global upturn. Further efforts to promote private sector activity and FDI will also be essential, by providing a fair and predictable business environment, as these sectors could help offset any negative impact of SOE/SOCB reforms in the near term.

43. **To minimize the potential fiscal costs of SOCB reforms and to return these banks to health, stronger and sustained efforts in state bank restructuring should be a top priority**. The restructuring plans of the four large SOCBs provide a good start, and must be vigorously implemented with very close oversight by the SBV, with clear and binding

incentives for compliance. In particular, these banks will need to substantially strengthen their credit risk management and make best efforts to resolve NPLs, consistent with bank-specific performance milestones. Steps to recapitalize the SOCBs should be carefully phased and conditioned on bank performance. To set a transparent and realistic basis for monitoring SOCB reform, it will be important to bring loan classification in line with international accounting standards at the latest by end year.

44. **The staff urges the authorities to redouble efforts in SOE reform in order to achieve the original three-year targets and make up for the delays so far**. As internal support for this reform appears to have been bolstered recently, rephasing the reform timetable to protect the original targets should be an immediate priority. Moreover, the authorities should aim to quickly adopt the guidelines for social safety nets and for SOE debt resolution, remove the caps for shareholdings in equitized SOEs, and strengthen monitoring mechanisms with Bank technical assistance.

45. **The staff welcomes the progress that has been made in preparing a poverty reduction strategy for completion by April 2002**. The envisaged consultations appear to be appropriately broad and timely, and the planned analytical work is commendable, especially as it would give due attention to incorporating the social impact of reforms.

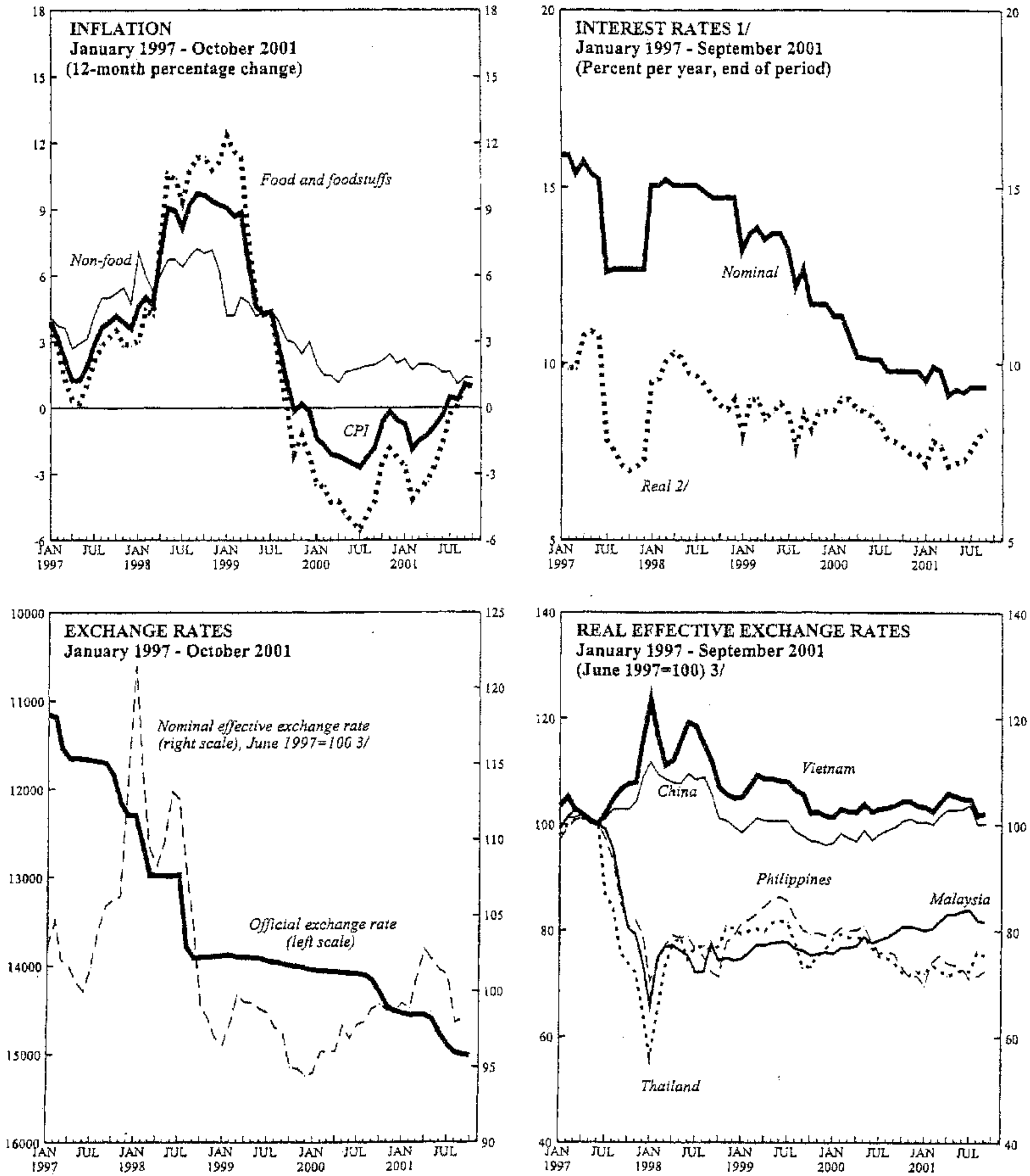
46. **Based on the Stage One safeguards assessment and to ensure compliance with the safeguards framework**, it will be important to complete an external audit of the 2001 financial statements of the SBV on international auditing standards and to publish its audited statements by June 2002. These actions will provide a basis for a fuller assessment of the adequacy of the system of audit and control in place at the SBV.

47. **Recent steps to strengthen policy transparency are welcomed, but additional efforts are needed to better inform the public of economic performance and policy choices, thus boosting investor confidence**. Similarly, a further upgrading of Vietnam's statistical base is important, especially in view of the weaknesses identified by recent Fund technical assistance. The authorities should take follow-up actions, with priority given to the area of national accounts, and reach a timely decision on Vietnam's participation in the GDDS.

48. **The staff recommends completion of the first review under the PRGF arrangement on the strength of the authorities' program through June 2002 and completion of the agreed prior actions**. The staff also supports the authorities' request for waivers of the nonobservance of two performance criteria for end-June and the structural performance criterion for end-September, and for the associated modification of one performance criterion for end-December, as the breaches were attributable to exceptional one-time factors and the underlying policies remain in line with program understandings.

49. **It is proposed that Vietnam remain on the standard 12-month cycle for Article IV consultations.**

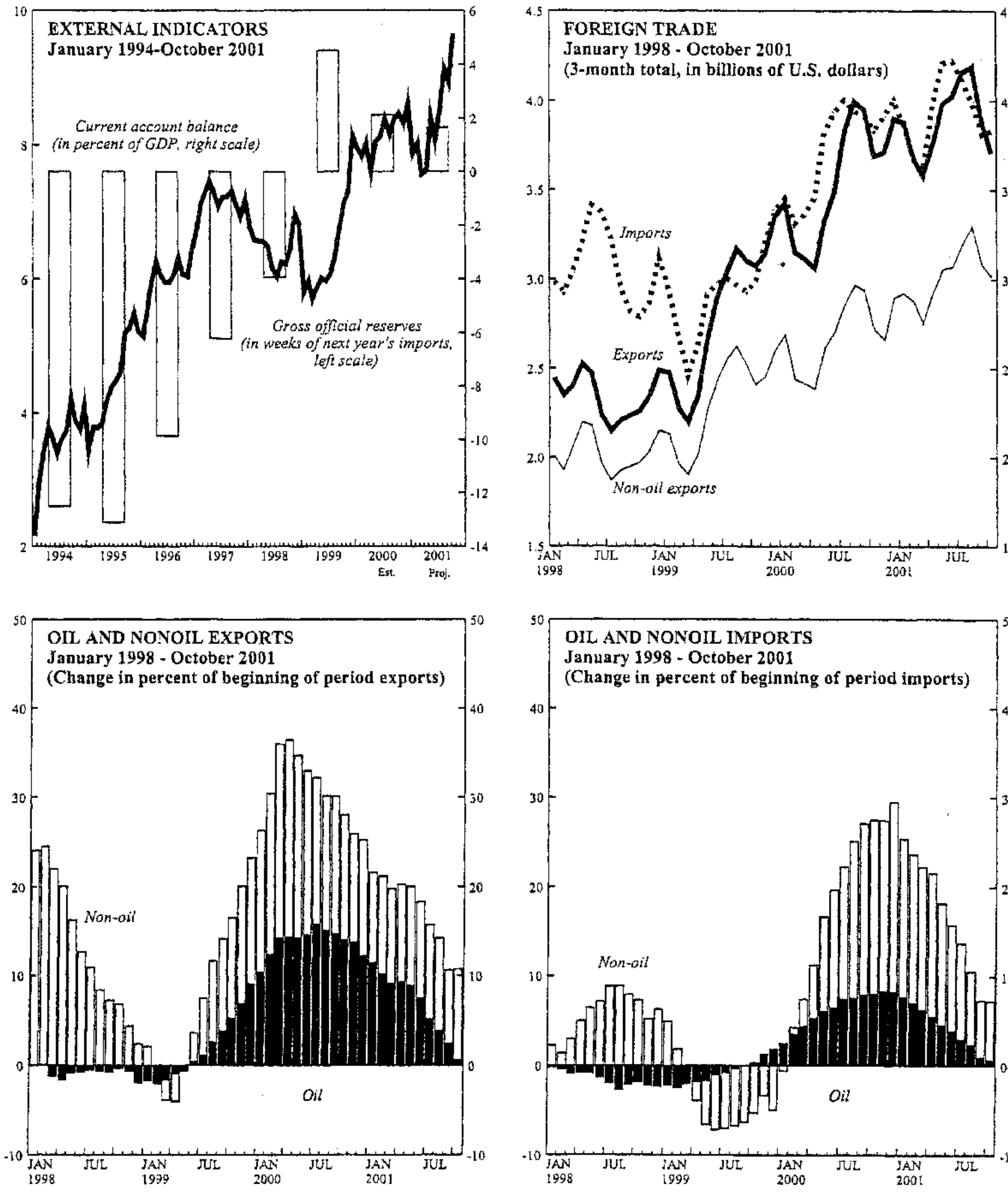
Figure 1. Vietnam: Selected Economic Indicators, 1997-2001



Sources: Data provided by the Vietnamese authorities; and Fund staff estimates.

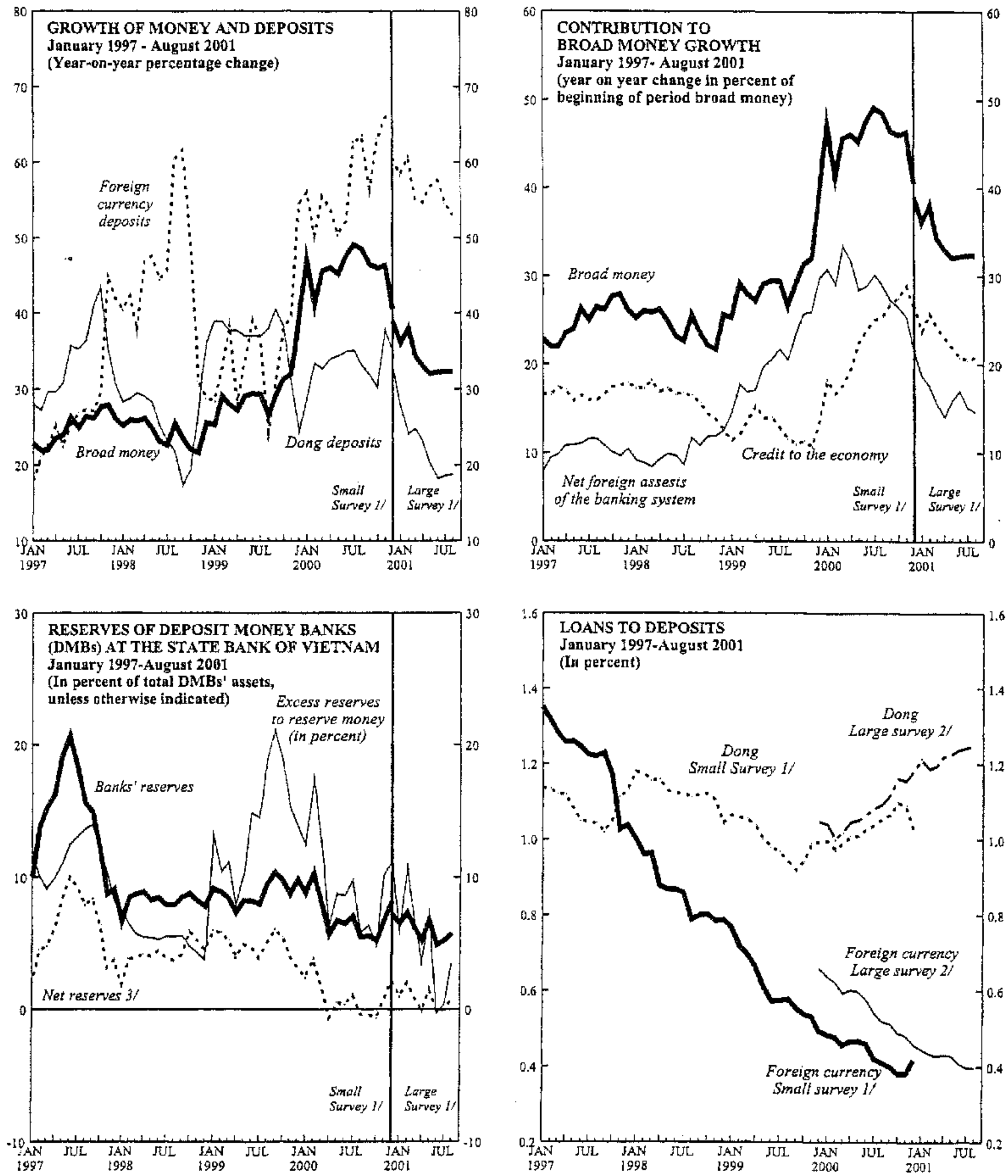
1/ On short-term working capital loans.
2/ Measured with respect to nominal interest rate at the end of each month and three-month moving average of year-on-year non-food inflation.
3/ Estimated for September 2001.

Figure 2. Vietnam: External Sector Developments, 1994-2001



Sources: Data provided by the Vietnamese authorities; and Fund staff estimates.

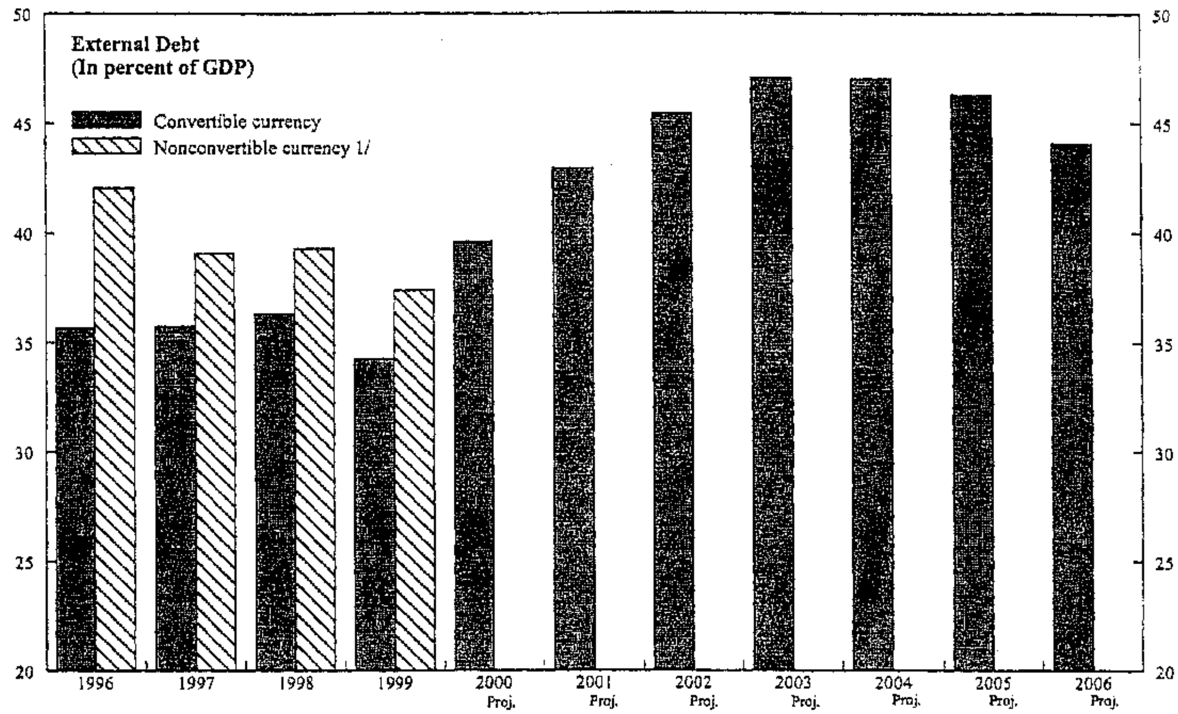
Figure 3. Vietnam: Monetary and Financial Indicators, 1997-2001

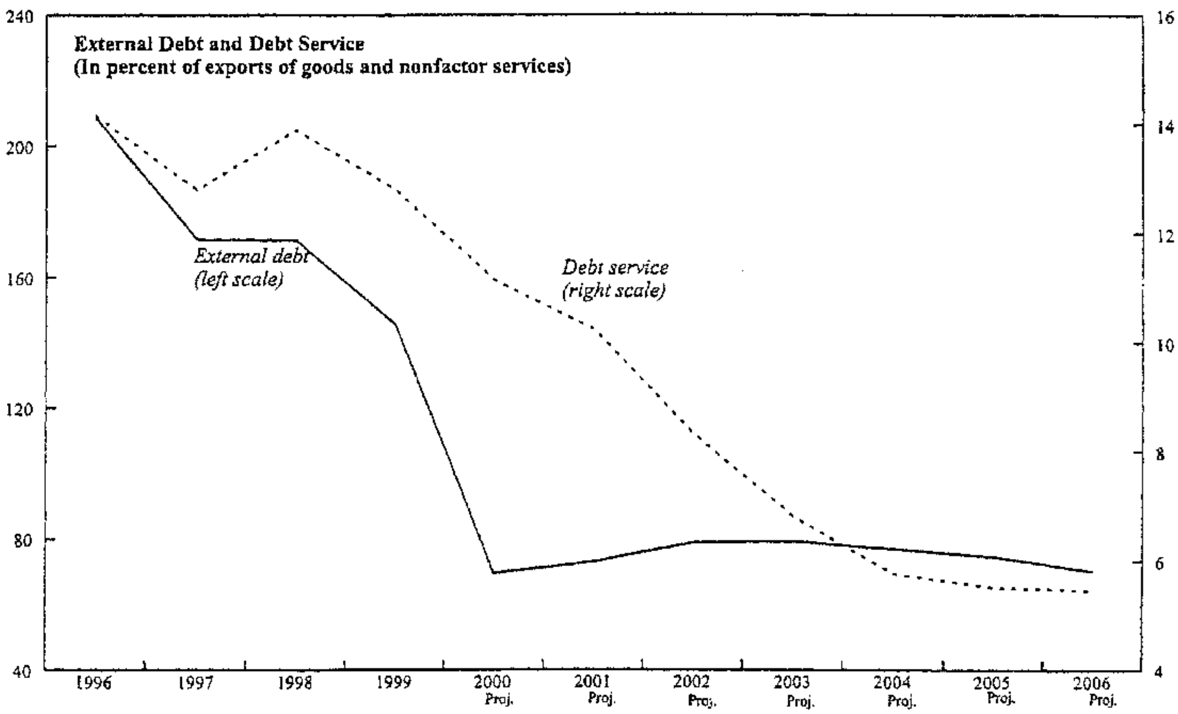


Sources: Data provided by the Vietnamese authorities, and Fund staff estimates.

1/ Monetary survey comprising State Bank of Vietnam (SBV), four large state-owned commercial banks, and 24 non-state banks.
2/ Monetary survey comprising SBV, six large state-owned commercial banks, and 83 non-state banks.
3/ Defined as banks' reserves at the SBV less credit from the SBV.

Figure 4. Vietnam: External Debt Indicators, 1996-2006





Sources: Data provided by the Vietnamese authorities; and Fund staff estimates.

1/ Restructuring of nonconvertible Russian debt was concluded in September 2000.

Table 1. Vietnam: Fund Position and Indicators of Fund Credit, 2000–04

	Outstanding on December 31, 2000	2001 Jan.-Mar.	2001 Apr.-Jun.	2001 Jul.–Sep.	2001 Oct.–Dec.	2001 Cumulative	Projections 2002	Projections 2003	Projections 2004
Transactions during the period (net)	...	-6.04	33.35	-12.08	33.35	48.57	30.45	30.45	-7.73
Tranche policies and special facilities repurchases (net)	...	0.00	2.01	0.00	2.01	4.03	4.03	4.03	1.01
Enhanced Structural Adjustment Facility repayments (net)	...	6.04	6.04	12.08	6.04	30.20	48.32	48.32	48.32
Poverty Reduction and Growth Facility disbursements (net)	...	0.00	41.40	0.00	41.40	82.80	82.80	82.80	41.60
Total Fund credit outstanding (end of period)	242.61	236.57	269.91	257.83	291.18	291.18	321.63	352.09	344.36
Tranche policies and special facilities	13.09	13.09	11.07	11.07	9.06	9.06	5.03	1.01	0.00
Enhanced Structural Adjustment Facility	229.52	223.48	217.44	205.36	199.32	199.32	151.00	102.68	54.36
Poverty Reduction and Growth Facility	0.00	0.00	41.40	41.40	82.80	82.80	165.60	248.40	290.00
Total Fund credit outstanding (end of period)	73.7	71.9	82.0	78.3	88.5	88.5	97.7	107.0	104.6
Tranche policies and special facilities	4.0	4.0	3.4	3.4	2.8	2.8	1.5	0.3	0.0
Enhanced Structural Adjustment Facility	69.7	67.9	66.1	62.4	60.6	60.6	45.9	31.2	16.5
Poverty Reduction and Growth Facility	0.0	0.0	12.6	12.6	25.2	25.2	50.3	75.5	88.1
Memorandum item:									
Debt service to the Fund to exports of goods and nonfactor services (in percent)	...	...	...	...	...	0.3	0.4	0.3	0.3

Sources: International Monetary Fund, Treasurer's Department; and staff projections.

Table 2. Vietnam: Selected Economic Indicators, 1996–2002

Nominal GDP (2000):	US$30.3 billion	GDP per capita (2000):	US$390
Population (2000):	77.7 million	Fund quota:	SDR 329.1 million

	1996	1997	1998	1999	2000	2001		2002	Oct. 2001 1/
					Est.	Proj.	Rev.	Proj.	Official est.
Real GDP (annual percentage change)	9.3	8.2	3.5	4.2	5.5	5.0	4.7	5.3	...
Industrial output 2/	14.2	13.8	12.5	11.6	15.7	...	...	...	...
Saving-investment balance (in percent of GDP)	-10.5	-6.9	-4.6	4.1	1.7	-0.7	1.2	-1.9	...
Gross national saving	17.6	21.4	19.1	26.5	27.3	24.7	27.3	25.5	...
Gross investment	28.1	28.3	23.7	22.4	25.6	25.4	26.1	27.5	...
Inflation (annual percentage change)									
Period average	5.7	3.2	7.3	4.1	-1.7	4.0	0.8	4.9	0.5
End of period	4.5	3.6	8.6	-0.2	-0.6	5.0	2.0	4.0	0.4
GDP deflator	8.7	6.6	11.1	5.7	2.5	5.2	1.7	5.1	...
Government budget (in percent of GDP) 3/									
Total revenue	22.4	20.0	19.6	19.2	20.7	19.9	21.6	20.4	21.0 4/
Grants	0.6	0.8	0.6	0.6	0.4	0.4	0.4	0.4	0.4 4/
Total expenditure (excluding onlending and capital costs of reforms)	23.1	22.6	20.4	20.6	23.1	23.1	24.9	24.7	22.8 4/
of which: current expenditure	17.4	16.3	14.7	13.9	15.3	15.6	16.1	16.5	16.1 4/
Overall fiscal balance (including grants, excluding onlending)	-0.2	-1.7	-0.1	-0.8	-2.0	-2.7	-2.9	-3.9	-1.4 4/
Money and credit (annual percentage change, end of period) 5/									
Broad money	22.7	26.1	25.6	39.3	39.0	22.8	23.2	...	32.4 6/
Credit to the economy	20.1	22.6	16.4	19.2	38.1	20.0	21.0	...	29.8 6/
Interest rates (in percent, end of period)									
Three-month deposits (households)	9.1	8.1	9.7	4.0	4.3	...	...	...	5.5 7/
Short-term lending (less than one year)	15.9	12.7	14.7	11.7	9.8	...	...	...	9.3 7/
Current account (including official transfers)									
(in millions of U.S. dollars)	-2,431	-1,664	-1,067	1,285	642	-89	512	-512	...
(in percent of GDP)	-9.9	-6.2	-3.9	4.5	2.1	-0.3	1.7	-1.6	...
Exports of goods (annual percentage change, U.S. dollar terms) 8/	41.2	24.6	2.4	23.2	25.2	6.8	5.8	4.0	9.0
Imports of goods (annual percentage change, U.S. dollar terms) 8/ 9/	25.5	-0.2	-1.1	1.1	34.5	11.3	6.0	9.5	4.8
Foreign exchange reserves (in millions of U.S. dollars, end of period)									
Gross official reserves, including gold	1,673	1,857	1,765	2,711	3,030	3,601	3,601	3,971	3,700 10/
(in weeks of next year's imports of goods and nonfactor services)	6.4	7.2	6.8	8.1	8.6	8.3	9.4	9.1	9.6
Net international reserves, including gold	1,065	1,258	1,173	2,118	2,191	2,672	2,631	...	...
External debt (in percent of GDP) 11/	77.7	74.8	75.6	71.6	39.3	41.4	42.8	45.5	...
Convertible currency 12/	35.7	35.7	36.3	34.2	39.3	41.4	42.8	45.5	...
Nonconvertible currency	42.0	39.1	39.3	37.4	0.0	0.0	0.0	0.0	...
Debt-service ratio (percent of exports of goods and nonfactor services)									
Debt due	12.9	12.8	13.9	12.8	11.2	10.1	10.2	8.3	...
Debt paid	5.6	8.1	8.1	10.5	9.9	...	...	...	...
Exchange rate (dong per U.S. dollar)									
Period average	11,033	11,706	13,297	13,944	14,170	...	...	...	...
End of period	11,150	12,292	13,890	14,028	14,514	...	...	...	15,033
Real effective exchange rate (annual percentage change)									
Period average	6.6	3.4	8.1	-6.5	-2.8	...	...	...	1.3 6/
End of period	3.7	12.7	-9.4	-3.1	2.0	...	...	...	-1.3 6/
Memorandum items:									
GDP (in trillions of dong at current market prices)	272.0	313.6	360.6	397.3	429.7	470.4	457.6	506.5	...
Per capita GDP (in U.S. dollars)	337	361	359	372	390	403	392	410	...

Sources: Data provided by the authorities; and staff estimates and projections.

1/ Performance as of August 2001, unless otherwise indicated.
2/ Annual data are year-on-year changes in the gross value of industrial output; monthly data are changes since the beginning of the year compared with the same period in the previous year.
3/ Cash basis.
4/ Peformance in the first half of 2001 on an annualized basis.
5/ Figures for 2000 and 2001 based on expanded monetary survey (State Bank of Vietnam (SBV) and 89 credit institutions); for previous periods, based on original monetary survey (SBV and 28 credit institutions).
6/ August 2001.
7/ September 2001.
8/ Monthly data are changes since the beginning of the year compared with the same period in the previous year.
9/ For monthly data, rate of growth based on imports c.i.f.; otherwise, based on imports f.o.b.
10/ Preliminary estimate as of October 26, 2001.
11/ London Club rescheduling was concluded in early 1998. Restructuring of the Russian debt was concluded in September 2000 on comparable terms to the 1993 Paris Club rescheduling.
12/ Includes the loan component of foreign direct investment and other private sector borrowing, and short-term debt.

Table 3. Vietnam: Quantitative Performance Criteria and Benchmarks Under the First-Year PRGF Program Through June 2002 1/ 2/

	Stock at: Dec. 31 2000 Actual	Maximum cumulative change from end-December 2000 to: March 31, 2001 Program	March 31, 2001 Actual	June 30, 2001 Program	June 30, 2001 Actual	Sept. 30, 2001 Program	Dec. 31, 2001 Program	Dec. 31, 2001 Revised program	Stock at: Dec. 31, 2001 Revised program	Maximum cumulative change from end-December 2001 to: March 31, 2002 Program	June 30, 2002 Program
	(In trillions of dong)										
1. Net domestic assets of the banking system 3/	127.2	8.3	10.0	16.3	13.6	24.3	33.3	34.9	162.1	10.1	20.3
2. Net credit to the government of the banking system 4/	-0.5	1.5	-0.2	1.5	-4.0	2.0	2.5	2.5	2.0	0.8	1.5
3. Credit to the state-owned enterprises (SOEs) from the banking system	69.9	2.1	3.2	4.2	5.2	6.3	8.4	9.1	79.0	2.6	5.1
4. Credit from the banking system and from the budget and budget support to the 200 targeted large SOEs	35.3 5/	0.6	1.7 5/	1.2	-0.9 5/	1.8	2.4	2.4	37.7	0.6	1.2
	(In millions of U.S. dollars)										
5. Contracting or guaranteeing of nonconcessional external debt by the government											
Up to one-year maturity	0	0	0	0	0	0	0	0	0	0	0
Medium and long-term debt	598	100	0	220	40	420	550	550	...	100	220
Of which : 1-5 years' maturity	...	0	0	0	0	150	150	150	...	0	0
6. External payments arrears 6/	57.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	57.3	0.0	0.0
7. Net official international reserves 7/	2,191	65	-141	175	107	310	440	440	2,631	62	125

Sources: Vietnamese authorities; and staff estimates and projections.

1/ The measurement and reporting requirements of quantitative benchmarks and performance criteria are described in the Annex I (Technical Memorandum of Understanding) of the Supplementary Memorandum on Economic and Financial Policies of the Government of Vietnam for September 2001-June 2002.

2/ Performance criteria for end-June and end-December 2001; and quantitative benchmarks otherwise, except for (i) credit from the banking system and from the budget and budget support to 200 targeted large SOEs, which is a quantitative benchmark for end-June 2001 and end-December 2001; and (ii) external payments arrears, which is a continuous performance criterion through June 2002.

3/ At program monitoring exchange rates.

4/ Excludes non-negotiable government bonds for state-owned commercial banks' reform.

5/ Ministry of Finance estimate.

6/ Represent outstanding arrears to Algeria; a rescheduling agreement is currently under discussion between the Vietnamese and Algerian authorities.

7/ Actual performance measured on the basis of using program monitoring exchange rates for non-U.S. dollar-denominated foreign assets and liabilities of the State Bank of Vietnam, as described in Annex I.

Table 4. Vietnam: Summary of General Government Budgetary Operations, 1998-2002 1/
(In trillions of dong)

	1998	1999	2000 Est.	2001 Staff. proj	2001 Rev.	2002 Staff proj.
Revenue and grants	73.0	78.5	90.7	95.7	100.7	105.5
Revenue	70.8	76.1	88.8	93.8	98.8	103.5
of which: Oil revenue	14.6	18.5	28.6	32.8	32.2	31.1
Tax revenue	55.7	60.3	64.1	72.4	75.4	82.5
Nontax revenue	15.2	15.8	24.7	21.4	23.4	21.0
Grants	2.1	2.4	1.9	1.9	1.9	2.0
Total expenditure (including onlending)	78.8	88.9	109.7	119.0	120.5	131.8
(excluding onlending)	73.4	81.8	99.3	108.6	114.1	125.1
Current expenditure	52.9	55.1	65.7	73.3	73.7	83.6
of which: Current cost of reform	0.0	0.0	0.0	2.8	0.9	3.5
Current non-interest expenditures	50.9	52.8	62.6	68.7	69.3	77.9
Wages and salaries	19.6	22.9	27.9	33.2	33.2	36.5
Other	31.3	29.9	34.7	35.5	36.1	41.4
Interest payments (paid)	2.1	2.3	3.1	4.6	4.5	5.7
(scheduled)	2.1	2.3	3.1	4.3	4.5	5.7
Capital expenditure and onlending (excluding capital costs of reform)	25.9	33.8	44.0	43.4	44.3	48.2
of which: onlending	5.4	7.1	10.4	10.4	6.4	6.7
Contingency	0.0	0.0	0.0	2.4	2.5	0.0
Capital costs of SOE and SOCB reform	2.4	0.0	0.0	8.2	2.7	19.2
Overall fiscal balance (excluding onlending and capital costs of reform)	-0.5	-3.3	-8.6	-12.9	-13.4	-19.6
Overall fiscal balance (including onlending)	-5.8	-10.4	-19.1	-23.4	-19.8	-26.3
Augmented balance (including onlending and capital costs of reform)	-8.2	-10.4	-19.1	-31.6	-22.6	-45.5
Financing	8.2	10.4	19.1	31.6	22.6	45.5
Domestic (net)	0.8	-1.5	4.4	12.4	10.0	27.7
Banking system	-0.8	-5.4	-3.4	2.5	2.5	3.0
Bank restructuring bonds	0.0	0.0	0.0	5.0	1.9	13.7
Nonbanks 2/	1.6	3.9	7.8	4.9	5.6	11.0
Foreign (net) 3/	7.4	11.9	14.6	19.2	12.6	17.7
Memorandum items:						
Reform cost for safety nets	0.0	0.0	0.0	2.5	0.6	2.5
Interest cost of reform	0.0	0.0	0.0	0.3	0.3	1.0
Expenditures managed at units 4/	3.6	4.8	5.3	...	...	...
Total social expenditure (excluding social security) 5/	18.1	21.2	26.1	27.2	29.8	35.0
of which : Education and training and health	17.9	19.5	24.3	24.8	26.5	29.5
Current expenditure	13.2	14.0	17.7	17.8	19.1	22.8
Capital expenditure	4.9	7.2	8.4	9.4	10.7	12.2

Sources: Ministry of Finance, State Budget Department; and staff estimates and projections.

1/ Cash basis.
2/ Domestic nonbank financing is derived as a residual and includes statistical discrepancy.
3/ Includes prospective external budget support for structural reforms.
4/ Self-financed expenditures undertaken by government administrative units, which are excluded from the above budget presentation.
5/ Staff estimate based on (i) current social expènditure in the budget on education and training, health, and family planning; (ii) safety net costs of state-owned enterprise reform; (iii) targeted capital spending programs in poverty reduction and employment, clean water and public health, family planning, education and training, and reforestation; and (iv) other capital expenditure on education and training and health, and on poverty-related projects in the agriculture, transportation, and electricity and water sectors.

Table 4. Vietnam: Summary of General Government Budgetary Operations, 1998–2002 1/ (concluded)
(In percent of GDP)

	1998	1999	2000 Est.	2001 Staff. proj.	2001 Rev.	2002 Staff proj.
Revenue and grants	20.2	19.8	21.1	20.3	22.0	20.8
Revenue	19.6	19.2	20.7	19.9	21.6	20.4
of which: Oil revenue	4.1	4.7	6.7	7.0	7.0	6.1
Tax revenue	15.4	15.2	14.9	15.4	16.5	16.3
Nontax revenue	4.2	4.0	5.7	4.5	5.1	4.1
Grants	0.6	0.6	0.4	0.4	0.4	0.4
Total expenditure (including onlending)	21.9	22.4	25.5	25.3	26.3	26.0
(excluding onlending)	20.4	20.6	23.1	23.1	24.9	24.7
Current expenditure	14.7	13.9	15.3	15.6	16.1	16.5
of which: Current cost of reform	0.0	0.0	0.0	0.6	0.2	0.7
Current non-interest expenditure	14.1	13.3	14.6	14.6	15.1	15.4
Wages and salaries	5.4	5.8	6.5	7.1	7.3	7.2
Other	8.7	7.5	8.1	7.5	7.9	8.2
Interest payments (paid)	0.6	0.6	0.7	1.0	1.0	1.1
Capital expenditure and onlending (excluding capital costs of reform)	7.2	8.5	10.2	9.2	9.7	9.5
Contingency	0.0	0.0	0.0	0.5	0.5	0.0
Capital costs of SOE and SOCB reform	0.7	0.0	0.0	1.7	0.6	3.8
Overall fiscal balance (excluding onlending and capital costs of reform)	-0.1	-0.8	-2.0	-2.7	-2.9	-3.9
Overall fiscal balance (including onlending)	-1.6	-2.6	-4.4	-5.0	-4.3	-5.2
Augmented balance (including onlending and capital costs of reform)	-2.3	-2.6	-4.4	-6.7	-4.9	-9.0
Financing	2.3	2.6	4.4	6.7	4.9	9.0
Domestic (net)	0.2	-0.4	1.0	2.6	2.2	5.5
Banking system	-0.2	-1.4	-0.8	0.5	0.5	0.6
Bank restructuring bonds	0.0	0.0	0.0	1.1	0.4	2.7
Nonbanks 2/	0.5	1.0	1.8	1.0	1.2	2.2
Foreign (net) 3/	2.1	3.0	3.4	4.1	2.7	3.5
Memorandum items:						
Reform cost for safety nets	0.0	0.0	0.0	0.5	0.1	0.5
Interest cost of reform	0.0	0.0	0.0	0.1	0.1	0.2
Expenditures managed at units 4/	1.0	1.2	1.2	...	...	...
Total social expenditure (excluding social security) 5/	5.0	5.3	6.1	5.8	6.5	6.9
of which: Education and training and health	5.0	4.9	5.6	5.3	5.8	5.8
Current expenditure	3.7	3.5	4.1	3.8	4.2	4.5
Capital expenditure	1.4	1.8	2.0	2.0	2.3	2.4

Sources: Ministry of Finance, State Budget Department; and staff estimates and projections.

1/ Cash basis.
2/ Domestic nonbank financing is derived as a residual and includes statistical discrepancy.
3/ Includes prospective external budget support for structural reforms.
4/ Self-financed expenditures undertaken by government administrative units, which are excluded from the above budget presentation.
5/ Staff estimate based on (i) current social expenditure in the budget on education and training, health, and family planning; (ii) safety net costs of state-owned enterprise reform; (iii) targeted capital spending programs in poverty reduction and employment, clean water and public health, family planning, education and training, and reforestation; and (iv) other capital expenditure on education and training and health, and on poverty-related projects in the agriculture, transportation, and electricity and water sectors.

Table 5. Vietnam: Monetary Survey, December 1999–June 2002 1/ 2/

	1999	2000		2001								2002	
	Dec.	December		March		June		Aug.	Sept.	December		March	June
		Prog.	Rev.	Prog.	Est.	Prog.	Est.	Est.	Prog.	Prog.	Rev.	Program	
	(In trillions of dong)												
Net foreign assets	61.2	95.2	95.7	97.5	101.3	102.1	108.7	113.0	107.2	112.6	112.6	116.0	119.3
Foreign assets	77.7	112.2	112.7	114.5	118.5	119.5	126.5	131.1	124.6	130.5	130.5	134.0	137.5
Foreign liabilities	-16.5	-17.0	-17.0	-17.0	-17.2	-17.4	-17.8	-18.1	-17.4	-17.9	-17.9	-18.0	-18.2
Net domestic assets	99.2	127.7	127.2	136.0	137.1	144.0	140.2	147.8	152.0	161.0	162.1	172.2	182.4
Domestic credit	115.7	155.2	155.2	163.7	163.6	171.5	167.6	174.9	179.8	188.9	190.4	200.6	210.8
Net claims on government	3.0	-0.5	-0.5	1.0	-0.7	1.0	-4.5	-3.7	1.5	2.0	2.0	2.8	3.5
Credit to the economy	112.7	155.7	155.7	162.7	164.3	170.5	172.1	178.5	178.3	186.9	188.4	197.9	207.3
Claims on state enterprises	54.3	69.9	69.9	72.0	73.1	74.1	75.1	...	76.2	78.3	79.0	81.6	84.1
Claims on other sectors	58.4	85.8	85.8	90.7	91.2	96.4	97.0	...	102.1	108.6	109.4	116.3	123.1
Other items, net	-16.5	-27.6	-28.0	-27.7	-26.5	-27.5	-27.4	-27.0	-27.8	-27.9	-28.4	-28.4	-28.4
Broad money	160.4	222.9	222.9	233.5	238.5	246.1	249.0	260.8	259.2	273.6	274.7	288.2	301.6
Dong liquidity	116.5	160.4	152.5	167.9	160.6	177.6	164.7	171.1	187.4	197.1	184.8	194.5	204.2
Foreign currency deposits	43.8	62.5	70.4	65.6	77.8	68.4	84.3	89.7	71.8	76.5	89.9	93.7	97.4
	(Annual percentage changes)												
Credit to the economy	...	38.1	38.1	34.1	35.4	28.2	29.4	29.8	26.8	20.0	21.0	20.4	20.4
Credit to state enterprises	...	28.7	28.7	24.4	26.3	15.9	17.4	...	17.5	12.0	13.0	11.6	12.0
Credit to other sectors	...	46.9	46.9	42.9	43.6	39.7	40.5	...	34.7	26.5	27.5	27.5	26.9
Broad money	...	39.0	39.0	31.6	34.3	30.7	32.3	32.4	30.9	22.8	23.2	20.8	21.2
Dong liquidity	...	37.6	30.8	31.9	26.2	31.8	22.2	23.6	34.7	22.9	21.2	21.1	24.0
Foreign currency deposits	...	42.5	60.5	30.8	55.1	28.0	57.6	53.0	21.9	22.4	27.7	20.3	15.6
	(Changes in percent since the beginning of the year)												
Credit to the economy	...	38.1	38.1	4.5	5.5	9.5	10.5	14.6	14.5	20.0	21.0	5.0	10.0
Credit to state enterprises	...	28.7	28.7	3.0	4.5	6.0	7.5	...	9.0	12.0	13.0	3.3	6.5
Credit to other sectors	...	46.9	46.9	5.7	6.3	12.4	13.1	...	19.0	26.5	27.5	6.3	12.5
Broad money	...	39.0	39.0	4.8	7.0	10.4	11.7	17.0	16.3	22.8	23.2	4.9	9.8
Dong liquidity	...	43.7	33.2	5.8	5.5	11.5	7.4	11.0	17.3	23.0	21.2	5.2	10.5
Foreign currency deposits	...	42.5	60.5	5.1	10.6	9.5	19.7	27.4	14.9	22.4	27.7	4.2	8.4
	(Quarterly percentage changes)												
Credit to the economy	...	10.7	10.7	4.5	5.5	4.8	4.8	5.2	4.6	4.8	...	5.0	4.8
Credit to state enterprises	...	7.8	7.8	3.0	4.5	2.9	2.8	...	2.8	2.8	...	3.3	3.1
Credit to other sectors	...	13.2	13.2	5.7	6.3	6.3	6.4	...	5.9	6.3	...	6.3	5.9
Broad money	...	12.5	12.5	4.8	7.0	5.4	4.4	7.7	5.3	5.6	...	4.9	4.7
Dong liquidity	...	15.0	6.6	5.8	5.5	5.4	1.8	4.2	5.2	4.9	...	5.2	5.0
Foreign currency deposits	...	6.1	19.5	5.1	10.6	4.2	8.3	12.2	4.9	6.5	...	4.2	4.0
	(In millions of U.S. dollars, unless otherwise indicated)												
Gross official international reserves) 3/	2,711	3,030	3,030	3,114	2,896	3,257	3,086	3,495	3,432	3,601	3,601	3,641	3,728
(in weeks of next year's imports of goods and nonfactor services)	8.1	8.2	8.6	7.2	7.0	7.5	7.4	8.4	7.9	8.3	9.4	8.4	8.6
Foreign currency deposits of DMBs at the State Bank of Vietnam	105	310	351	326	384	340	335	538	356	380	372	388	403
Net official international reserves 3/ 4/	2,093	2,232	2,191	2,297	2,040	2,407	2,246	2,437	2,542	2,672	2,631	2,694	2,756
Net foreign assets of the banking system	4,364	6,567	6,599	6,744	6,968	7,044	7,325	7,534	7,412	7,766	7,766	7,996	8,227
Velocity 5/	2.5	1.9	1.9	2.0	1.9	1.9	1.8	1.6	1.8	1.7	1.7	1.8	1.7
Dong velocity 5/	3.4	2.7	2.8	2.6	2.7	2.4	2.6	2.5	2.3	2.2	2.3	2.6	2.5
Money multiplier 6/	2.8	3.1	3.1	3.1	3.2	3.1	3.4	3.3	3.2	3.3	3.3	3.4	3.4
	(Changes in trillions of dong since the beginning of the year, unless indicated otherwise)												
Memorandum items:													
Net domestic assets of the banking system 7/	...	28.5	28.0	8.3	10.0	16.3	13.6	21.4	24.3	33.3	34.9	10.1	20.3
Net credit to the government of the banking system	...	-3.4	-3.4	1.5	-0.2	1.5	-4.0	-3.2	2.0	2.5	2.5	0.8	1.5
Credit to the state-owned enterprises from the banking system	...	15.6	15.6	2.1	3.2	4.2	5.2	...	6.3	8.4	9.1	2.6	5.1
Net official international reserves (in millions of U.S. dollars)	...	139	98	65	-151	175	55	246	310	440	440	62	125

Sources: State Bank of Vietnam; and staff estimates and projections.

1/ Comprising the State Bank of Vietnam (SBV), six state-owned commercial banks, and 83 nonstate-owned credit institutions.
2/ At current exchange rates, unless indicated otherwise.
3/ Excludes foreign currency counterpart of swap operations and of government foreign currency deposits at the SBV.
4/ Excludes foreign currency deposits of DMBs at the SBV. Program targets based on projected foreign currency deposits in the banking system and reserve requirements.
5/ Velocity is measured as the ratio of GDP to end-of-period broad money (M2) or dong liquidity respectively, using Fund staff estimates and projections for nominal GDP.
6/ Money multiplier is measured as the ratio of total liquidity to reserve money.
7/ At program monitoring exchange rates.

Table 6. Vietnam: Key Structural Policy Actions Under the First-Year PRGF Program 1/

Policy Action	Timing	Status
A. Structural Benchmarks and Performance Criteria for the Second Disbursement (to be assessed during the First PRGF Review)		
1. Award contracts for Vietcombank (VCB) and Incombank (ICB) audits, subject to donor offering of funding.	Structural benchmark July 2001	Completed in September 2001 for Incombank and October 2001 for Vietcombank.
2. Submit progress report on VCB and ICB audits in line with contracts for the audits.	Structural performance criterion September 2001	Completed in October 2001; waiver requested.
B. Prior Actions for Completion of First PRGF Review		
Banking reform		
1. Government approval of the restructuring plans for ICB, Bank for Agriculture and Rural Development (BARD), and Bank for Investment and Development (BIDV) consistent with the overall state-owned commercial bank (SOCB) reform framework adopted in April 2001 under the PRGF.		Completed in October 2001.
2. Agree, in consultation with the World Bank, on milestones for loan restructuring at the four large SOCBs.		Completed in September 2001.
3. Issue State Bank of Vietnam (SBV) directive governing conditions for a phased recapitalization of the four large SOCBs, including the above milestones and operational targets.		
4. Government approval of the SOCB financial restructuring guidelines consistent with the principles set out in MEFP paragraph 11.		
State-owned enterprise (SOE) debt monitoring		
5. Issue a revised Ministry of Finance decision on the criteria for monitoring the 200 targeted large SOEs, which clarifies the quarterly reporting requirements and introduces sanctions against late reporting.		Completed in September 2001.

1/ Based on October 2001 for the first PRGF review date and April 2002 for the second review.

Table 6. Vietnam: Key Structural Policy Actions Under the First-Year PRGF Program 1/ (concluded)

Policy Action	Timing	Status
C. Structural Benchmarks and Performance Criteria for the Third Disbursement (to be assessed during the Second PRGF Review)		
Banking reform		
1. Amend Decisions 284 to bring the criteria for loan classification by banks in accordance with international standards.	Structural performance criterion December 2001	
2. Make fully operational special monitoring unit to oversee implementation of SOCB reform under the interministerial committee for SOCB financial restructuring.	Structural benchmark December 2001	
3. Resolve a total of D 1.4 trillion in non-performing loans for the four large SOCBs (VCB, ICB, BARD and BIDV) in accordance with the terms specified in the SBV directive with each bank.	Structural performance criterion March 2002	
State-owned enterprise reform		
4. Equip the special monitoring unit in the National Steering Committee for Enterprise Reform and Development (NSCERD) with enforcement power to oversee implementation of SOE reform plan.	Structural benchmark December 2001	
5. Government approval of implementation guidelines on SOE debt resolution and safety nets for labor redundancies.	Structural benchmark December 2001	
Exchange system liberalization		
6. Submit a recommendation to the National Assembly to eliminate the tax on profit remittances for foreign invested enterprises.	Structural benchmark March 2002	

Table 7. Vietnam: Medium-Term Macroeconomic Framework, 1999–2006
(In percent of GDP, unless otherwise indicated)

	1999	2000	2001		2002	2003	2004	2005	2006
		Est.	Proj.	Rev.	Projection				
Real GDP (annual percentage change)	4.2	5.5	5.0	4.7	5.3	7.0	7.0	7.0	7.0
Inflation (annual percentage change)									
(annual average)	4.1	-1.7	4.0	0.8	4.9	3.8	3.3	3.0	3.0
(end of period)	-0.2	-0.6	5.0	2.0	4.0	3.5	3.0	3.0	3.0
GDP deflator (annual percentage change)	5.7	2.5	5.2	1.7	5.1	3.7	3.2	3.0	3.0
Current account balance									
(including official transfers)	4.5	2.1	-0.3	1.7	-1.6	-2.9	-1.8	-1.7	-1.3
(excluding official transfers)	4.1	1.7	-0.7	1.2	-1.9	-3.3	-2.2	-2.1	-1.7
Saving-investment balance	4.1	1.7	-0.7	1.2	-1.9	-3.3	-2.2	-2.1	-1.7
Gross national saving	26.5	27.3	24.7	27.3	25.5	25.0	26.0	26.2	27.0
Gross investment	22.4	25.6	25.4	26.1	27.5	28.3	28.2	28.3	28.7
Gross official reserves (in billions of U.S. dollars)	2.7	3.0	3.6	3.6	4.0	4.6	5.1	5.7	6.3
(in weeks of next year's imports of goods and nonfactor services)	8.1	8.6	8.3	9.4	9.1	9.5	9.6	9.8	9.9
General government budget									
Total revenue and grants	19.8	21.1	20.3	22.0	20.8	21.0	21.2	21.4	21.6
Revenue	19.2	20.7	19.9	21.6	20.4	20.6	20.8	21.0	21.2
Grants	0.6	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Total expenditure (including onlending)	22.4	25.5	25.3	26.3	26.0	25.4	25.1	25.1	25.1
(excluding onlending)	20.6	23.1	23.1	24.9	24.7	24.1	23.7	23.6	23.6
Current expenditure (including budget contingency)	13.9	15.3	16.1	16.7	16.5	16.1	15.8	16.0	16.2
of which: current reform costs	0.0	0.0	0.6	0.2	0.7	1.1	0.7	0.6	0.5
Capital expenditure and onlending	8.5	10.2	9.2	9.7	9.5	9.3	9.3	9.2	8.9
Overall balance (excluding onlending and capital costs of reforms)	-0.8	-2.0	-2.7	-2.9	-3.9	-3.1	-2.5	-2.2	-2.0
(including onlending and capital costs of reforms)	-2.6	-4.4	-5.0	-4.3	-5.2	-4.4	-3.9	-3.7	-3.5
Augmented fiscal balance 1/	-2.6	-4.4	-6.7	-4.9	-9.0	-8.3	-4.7	-3.7	-3.5
Broad money (annual percentage change) 2/	39.3	39.0	22.8	23.2	...	...	...	...	...
Velocity	2.5	1.9	1.7	1.7	...	...	...	...	...
External financing gap (in millions of U.S. dollars)	0	0	400	0	400	400	55	0	0
Debt service payments (in billions of U.S. dollars)	1.8	1.9	1.8	1.9	1.6	1.4	1.4	1.4	1.6
(in percent of exports of goods and nonfactor services)	12.8	11.2	10.1	10.2	8.3	6.8	5.8	5.5	5.5
External debt (in percent of GDP) 3/	34.2	39.3	41.4	42.8	45.5	47.0	46.9	46.2	44.0
(in percent of exports of goods and nonfactor services)	69.5	69.5	72.2	72.9	78.7	79.1	76.9	74.5	70.1

Source: Staff estimates and projections.

1/ Includes onlending and capital costs of reform.
2/ Starting in 2000, based on expanded monetary survey (State Bank of Vietnam (SBV) and 89 credit institutions); for previous periods, based on original monetary survey (SBV and 28 credit institutions).
3/ Debt in convertible currencies only.

Table 8. Vietnam: Balance of Payments, 1999–2006
(In millions of U.S. dollars, unless otherwise indicated)

	1999	2000	2001		2002	2003	2004	2005	2006
		Est.	Proj.	Rev.	Projections				
Current account balance	1,285	642	-89	512	-512	-1,039	-704	-725	-609
Excluding official transfers	1,154	506	-227	374	-632	-1,169	-844	-875	-759
Trade balance	1,080	378	-239	373	-440	-934	-742	-682	-485
Exports, f.o.b.	11,540	14,449	15,426	15,292	15,904	17,812	20,039	22,343	24,801
Imports, f.o.b.	10,460	14,071	15,665	14,919	16,344	18,747	20,780	23,025	25,286
Non-factor services (net)	-547	-615	-656	-586	-638	-637	-655	-743	-818
Receipts	2,493	2,695	2,876	2,824	2,993	3,263	3,556	3,805	4,071
Payments	3,040	3,310	3,532	3,409	3,631	3,900	4,212	4,548	4,890
Investment income (net)	-429	-597	-702	-753	-854	-997	-947	-999	-1,006
Receipts	142	185	199	138	104	190	271	306	336
Payments	571	782	901	891	958	1,187	1,218	1,305	1,343
Transfers (net)	1,181	1,476	1,508	1,478	1,420	1,530	1,640	1,700	1,700
Private	1,050	1,340	1,370	1,340	1,300	1,400	1,500	1,550	1,550
Official	131	136	138	138	120	130	140	150	150
Capital account balance	-334	-772	577	120	443	1,184	1,203	1,364	1,288
Gross foreign direct investment (FDI) inflows	700	800	1,000	1,000	1,400	1,500	1,300	1,300	1,300
Equity	301	320	600	600	980	600	520	520	520
Loan disbursements	399	480	400	400	420	900	780	780	780
FDI loan repayments	603	601	827	827	788	650	561	465	490
Medium and long-term loans (net)	605	729	1,304	637	581	835	964	1,029	978
Disbursements	1,036	1,411	1,767	1,100	1,050	1,200	1,300	1,400	1,400
ODA loans	970	1,361	1,275	1,000	1,000	1,000	1,100	1,250	1,250
Commercial loans	66	50	375	100	50	200	200	150	150
Scheduled amortization	431	682	463	463	469	365	336	371	422
Short term capital (net)	-1,036	-1,700	-900	-690	-750	-500	-500	-500	-500
Errors and omissions	-183	247	0	-123	0	0	0	0	0
Overall balance	768	116	488	509	-70	146	499	639	678
Financing	-768	-116	-488	-509	70	-146	-499	-639	-678
Change in net foreign assets of the State Bank of Vietnam (-, increase)	-1,316	-116	-888	-509	-330	-546	-554	-639	-678
Of which: Change in net international reserves	-938	-342	-509	-509	-330	-546	-554	-639	-678
Use of Fund credit (net)	-26	-21	63	63	40	40	-10	-48	-29
Other NIR	-912	-321	-572	-572	-370	-586	-544	-592	-649
Arrears and rescheduling 1/	548	-9,691	0	0	0	0	0	0	0
Debt relief 1/	0	9,691	0	0	0	0	0	0	0
Financing gap	0	0	400	0	400	400	55	0	0
Memorandum items:									
Gross official reserves, including gold	2,711	3,030	3,601	3,601	3,971	4,557	5,101	5,692	6,341
In weeks of next year's imports	8.1	8.6	8.3	9.4	9.1	9.5	9.6	9.8	10.0
Ratio to short term external debt (in percent) 2/	398	655	768	768	1,088	1,356	1,375	1,347	1,292
Ratio to broad money (in percent of GDP)	26.7	19.7	19.7	20.0	19.1	19.2	19.0	18.9	18.8
Current account balance (in percent of GDP)	4.5	2.1	-0.3	1.7	-1.6	-2.9	-1.8	-1.7	-1.3
Excluding official transfers	4.0	1.7	-0.7	1.2	-1.9	-3.3	-2.2	-2.1	-1.7
Export value growth (annual percentage change)	23.2	25.2	6.8	5.8	4.0	12.0	12.5	11.5	11.0
Import value growth (annual percentage change)	1.1	34.5	11.3	6.0	9.5	14.7	10.8	10.8	9.8

Sources: Data provided by the Vietnamese authorities; and staff estimates and projections.

1/ London Club rescheduling was concluded in early 1998. Restructuring of the Russian debt was concluded in September 2000 on comparable term to the 1993 Paris Club rescheduling.

2/ Short-term debt by remaining maturity refers to non-equity claims falling due over the next period.

Table 9. Vietnam: Indicators of External Vulnerability, 1997–2001

	1997	1998	1999	2000	2001 Oct.
Financial indicators					
Public sector external debt (in percent of GDP) 1/	59.8	59.6	58.4	28.4 2/	...
Broad money (M2: annual percentage change) 3/	26.1	25.6	39.3	39.0	32.4 4/
Foreign currency deposits to broad money (in percent) 3/	22.9	23.5	27.3	31.6	34.4 4/
Credit to other (nonstate) sectors (annual percentage change) 3/	30.5	10.0	29.8	46.9	40.5 5/
Foreign currency loans to credit to the economy (in percent) 3/	31.1	26.1	21.2	20.7	19.9 4/
Net open foreign currency position of commercial banks (in percent of capital) 3/ 6/	...	43.9	21.7	31.1	11.4 4/
External indicators					
Exports (annual percentage change, in U.S. dollars)	24.6	2.4	23.2	25.2	9.0
Imports (annual percentage change, in U.S. dollars)	-0.2	-1.1	1.1	34.5	4.8
Current account balance (in percent of GDP, including official transfers)	-6.2	-3.9	4.5	2.1	...
Capital account balance (in billions of U.S. dollars) 7/	1.7	0.2	-0.3	-0.8	...
of which:					
Short-term capital (net) 8/	-0.6	-0.6	-1.0	-1.7	...
Gross foreign direct investment (inflows)	2.1	0.8	0.7	0.8	...
of which: Debt and loans	1.1	0.6	0.4	0.5	...
Medium-and long-term loans (net)	0.4	0.4	0.6	0.7	...
Exchange rate (per U.S. dollar, period average, + dong appreciation) 9/	11,706	13,297	13,944	14,170	14,749 10/
(annual percentage change)	-6.1	-13.6	-4.9	-1.6	-4.6
Exchange rate (dong per U.S. dollar, end of period, + dong appreciation) 9/	12,292	13,890	14,028	14,514	15,033
(annual percentage change)	-10.2	-13.0	-1.0	-3.5	-4.6
Real effective exchange rate (end of period, annual percentage change, + appreciation)	12.7	-9.4	-3.1	2.0	-1.3 4/
Reserve indicators					
Gross official reserves, including gold (in billions of U.S. dollars	1.9	1.8	2.7	3.0	3.7
(in weeks of next year's imports of goods and nonfactor services)	7.2	6.8	8.1	8.6	9.6
Gross official reserves excluding banks' foreign currency reserves at SBV (in billions of U.S. dollars)	1.8	1.7	2.6	2.7	3.0 4/
Central bank short-term foreign liabilities(in billions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0 4/
Net official international reserves (in billions of U.S. dollars) 3/	1.3	1.2	2.1	2.2	2.4 4/
Gross official reserves to broad money (M2) (in percent) 3/	28.0	23.9	26.7	8.6	9.1 4/
Gross official reserves to short-term external debt by remaining maturity (in percent)	269	410	398	655	...
Net foreign assets of commercial banks (in billions of U.S. dollars)	1.7	2.3	4.4	6.6	7.5 4/
Debt indicators					
Total external debt (in billions of U.S. dollars) 2/	20.0	20.5	20.4	11.9	...
of which: Public and publicly guaranteed debt	16.0	16.2	16.6	8.6	...
Total debt to exports of goods and services (in percent) 2/	171.7	171.3	145.5	69.5	...
Total debt service to exports of goods and services (in percent) 11/	12.8	13.9	12.8	11.2	...
of which: External interest payments to exports of goods and services (in percent)	3.8	3.7	3.0	2.9	...
Total short-term external debt by remaining maturity (in billions of U.S. dollars)	0.7	0.4	0.7	0.5	...
Total short-term external debt by remaining maturity to total debt (in percent)	3.4	2.1	3.3	3.9	...
Financial market indicators					
Ho Chi Minh City Stock Exchange Composite Index (end of period, July 2000 = 100)	...	...	...	207	260
Number of listed companies	...	...	...	5	7

Sources: Vietnamese authorities; and Fund staff estimates and projections.

1/ Excludes domestic debt and unguaranteed external debt of state-owned enterprises.

2/ Restructuring of nonconvertible Russian debt was concluded in September 2000.

3/ Starting in 2000, based on expanded monetary survey (State Bank of Vietnam (SBV) and 89 credit institutions); for previous periods,based on original monetary survey (SBV and 23 credit institutions).

4/ August 2001.

5/ June 2001.

6/ Foreign and foreign currency denominated assets minus foreign and foreign currency denominated liabilities.

7/ Excludes errors and omissions.

8/ Includes net external position of banking system and portfolio investment.

9/ Official mid-rate, which comprises the previous day's average interbank buying and selling rates.

10/ Year-to-date average.

11/ Accrual basis.

Table 10. Vietnam: Conditions for Release of the World Bank's PRSC Second Tranche 1/

Policy Action/Conditions	Timing
State-owned enterprise reform	May 2002
1. Streamline the equitization process: to expand capital and security markets, to remove existing ceilings on shareholdings by individuals and legal entities in equitized SOEs, to improve transparency of the process, and to move responsibility for issuing, selling, and registering shares out of individual SOE's management.	
2. Complete major equitizations (i.e., selling more than 65 percent of shares to non-state shareholders and having no dominant or special state shares), sale under Decree No. 103-199-ND-CP of September 10, 1999 on Transfer, Sale, Management Contract and Lease of State Enterprises, or liquidation of at least 200 SOEs, with the equitized and sold SOEs operating and existing under the Enterprise Law.	
3. Complete minor equitizations (i.e., sales of shares with the State having dominant or special shares) of at least 200 SOEs, with the equitized SOEs operating and existing under the Enterprise Law.	
4. Modify the design of the fund established to finance the social safety net for SOE workers, put the fund as modified into operation with dedicated staff in adequate numbers, and complete a review and written report on the disbursement performance of the fund.	
Banking reform	May 2002
5. Adopt restructuring plans for four SOCBs (VCB, BARD, BIDV, and ICB) in accordance with the key principles of State Bank of Vietnam's (SBV) SOCB restructuring framework, and achieve the first year milestones in the said restructuring plan.	
6. Close nine joint-stock banks (JSBs) under SBV intervention and ensure compliance of all remaining JSBs with existing regulations.	
7. Amend Decision No. 284/2000/QD-NHNN1 of August 25, 2000 Issuing Regulation on Lending to Clients of Credit Institutions to bring criteria for loan classification by banks in accordance with international practice, and initiated implementation of revised criteria for classification of non-performing loans as well as for their provisioning.	
8. Complete audits of financial statements for the 2000 fiscal year of VCB, BARD, BIDV, and ICB in accordance with international auditing and accounting standards by international auditors acceptable to the Association [IDA] and furnish said audits to the Association.	

1/ For more details, see the World Bank's *Report and Recommendations of the President of the International Development Association to the Executive Directors on a Proposed PRSC of SDR 197.2 Million to the Socialist Republic of Vietnam* (Report No: P-7446-VN; 4/23/01).

Vietnam—Fund Relations
(As of September 30, 2001)

I. Membership Status: Joined: 09/21/1956; Article XIV

II. General Resources Account:	SDR Million	Percent Quota
Quota	329.10	100.0
Fund Holdings of Currency	340.17	103.4
Reserve position in Fund	0.01	0.0

III SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	47.66	100.0
Holdings	8.70	18.3

IV. Outstanding Purchases and Loans:	SDR Million	Percent Quota
STF	11.07	3.4
ESAF/PRGF arrangements	246.76	75.0

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	04/13/2001	04/12/2004	290.00	41.40
ESAF	11/11/1994	11/10/1997	362.40	241.60
Stand-by	10/06/1993	11/11/1994	145.00	108.80

VI. Projected Obligations to Fund (in SDR Million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	09/30/2001	2001	2002	2003	2004	2005
Principal	0.0	8.1	52.3	52.3	49.3	36.2
Charges/Interest	0.0	1.0	2.4	2.0	1.7	1.4
Total	0.0	9.1	54.7	54.4	51.0	37.7

VII. Safeguards Assessment:

Under the Fund's safeguards assessment policy, the State Bank of Vietnam (SBV) is subject to a full Stage One safeguards assessment with respect to the PRGF arrangement approved on April 13, 2001, which is scheduled to expire on April 12, 2004. A Stage One safeguards assessment of the SBV was completed on September 26, 2001. The assessment concluded that high risks may exist in certain areas of the safeguards framework[1], but did not draw conclusions on the SBV's internal controls structure. The assessment recommended a Stage Two (on-site) mission be conducted after the completion of the external audit of the SBV's year 2001 financial statements.

VIII. Exchange Rate Arrangement:

On February 25, 1999 the State Bank of Vietnam (SBV) revised the operation of the interbank foreign exchange market. Under this *de facto* managed floating regime, the SBV allows interbank foreign exchange market rates to depreciate by a maximum of 0.1 percent a day from the previous day's average interbank market rate.

IX. Article IV and XIV Consultations:

Vietnam is on a 12-month consultation cycle. The Executive Board concluded the 2000 Article IV (SUR/00/67; SM/00/153; and SM/00/154) on July 21, 2000. It concluded 1999 Article XIV consultation on December 16, 1999 (EBD/99/138) and adopted the following decision:

Vietnam continues to maintain restrictions on the making of payments and transfers for current international transactions under the transitional arrangements of Article XIV, Section 2, as described in EBD/99/138. The Fund encourages Vietnam to eliminate these restrictions as soon as circumstances permit.

X. Technical Assistance:

Missions:

- State-owned commercial bank (SOCB) restructuring and foreign reserve management (MAE), August-September 2001.
- Tax policy and administration reform (FAD), August 2001.
- Multisector statistics/GDDS (STA), July 2001.
- SOCB restructuring (MAE), June 2001.
- Liquidity management and open market operations (MAE), August 2000.
- Participation in Public Expenditure Review (FAD/APD), January 2000.
- Monetary and exchange operations and markets (MAE), November 1999.

[1] These areas include the external audit mechanism, legal structure, financial reporting system, and the internal audit mechanism of the SBV.

- Tariff policy and customs administration reform (FAD) May 1999.
- State-owned enterprise reform (World Bank/APD), April 1999.
- Bank restructuring, banking supervision, and monetary and exchange reforms (MAE), March 1999.
- Bank insolvency law reform (LEG), March 1999.
- Tax policy (FAD), December 1998.
- Banking system restructuring (World Bank/APD), October 1998.
- Fiscal transparency (FAD), September 1998.
- Banking system soundness, monetary and foreign exchange operations, banking supervision, and central bank accounting and auditing (MAE/APD), April–May 1998.
- Money and banking statistics (STA), February–March 1998.

Resident Advisor

- Tax computerization (FAD) through April 1998.

XI. Resident Representatives:

Mrs. Susan Adams succeeded Mr. Dennis de Tray as the Senior Resident Representative in mid-August 2001.

Vietnam—Relations With World Bank Group

The World Bank resumed lending to Vietnam in 1993 and opened a resident mission in Hanoi in 1994. During FY 1994–2001, the IDA approved 30 projects for a total of US$3.2 billion, of which about US$1.3 billion has been disbursed.[1] The Bank's Board also approved a two-year Poverty Reduction and Support Credit for US$250 million in June 2001.

The Country Assistance Strategy (CAS) for Vietnam, which was endorsed by the Board in September 1998, proposed an expanded program of IDA support for FY 1999–2002, which was justified on the basis of Vietnam's development needs, effective use of IDA resources, growing absorptive capacity, and special needs associated with the East Asian crisis. The CAS focused on the twin imperatives of restoring the momentum of growth and deepening the quality of development. To reach these goals, the government announced a program of action, and the CAS was designed around this program. Under the CAS, the World Bank also proposed changes to its way of doing business in Vietnam, including investing in operational partnerships, deepening the poverty focus, and moving toward sector-wide approaches. The Board discussed the CAS Progress Report for Vietnam in October 2001 and confirmed that the strategy laid out in the original CAS remained the right one, with its implementation largely on track.

The original CAS noted the risks of Vietnam not being able to return to the high growth path of recent years. It indicated the need to accelerate reforms and focus more attention on the social cost of macroeconomic and structural policies, and called for a well-positioned and flexible Bank Group program to be able to respond quickly in the event that risks materialized. To help address such risks, the Bank Group launched a major program of advisory and technical assistance in the key areas of banking, state-owned enterprise, and trade reform, including measures to mitigate social cost of reform, and has been assisting the government in designing and implementing the reform programs, together with the Fund.

Vietnam is current in its debt service payments to the Bank as of end September 2001.

World Bank Financial Operations[1/]
(In millions of U.S. dollars)

	1996	1997	1998	1999	2000	2001	2002[2/]
Commitments	502	349	395	308	286	629	0
Disbursements	34	250	238	207	156	160	40
Of which: program loans	0	60	34	0	0	0	0
Debt service	2	4	5	7	8	10	11
Debt outstanding	257	507	745	952	1,108	1,268	1,312

Source: World Bank staff estimates.

1/ Fiscal year ending June 30.
2/ As of September 30, 2001.

[1] Fiscal year ending June 30.

Vietnam—Relations with the Asian Development Bank

The Asian Development Bank (AsDB) resumed its operations in Vietnam in October 1993. The operational strategy is to promote pro-poor sustainable growth taking into account the particular needs of a country in transition from a centrally-planned to market-oriented economy. To this end, AsDB has provided support for policy and institutional reforms, investment, and capacity building in the following areas: (i) rural development; (ii) financial sector development; (iii) enterprise development; (iv) human development; and (v) governance and the legal framework. The new country operational strategy for Vietnam, which is expected to be finalized in 2001, will be anchored in the government's medium-term development plans and AsDB's overarching goal of poverty reduction.

From October 1993 to September 2001, AsDB approved 30 loans totaling about US$2.0 billion from the concessional Asian Development Fund (ADF) and US$40 million from Ordinary Capital Resources (OCR). Disbursements in 2000 totaled US$219 million, and in 2001 so far have totaled US$111 million. Since December 1998, Vietnam has been classified as a B-1 country by the AsDB, which makes it eligible to supplement borrowing at ADF terms with limited amounts of borrowing at nonconcessional OCR terms. Loans have been provided for (i) rehabilitating physical infrastructure in the agricultural, energy, and transport sectors; (ii) financial sector and state-owned enterprise reforms and corporate governance; and (iii) social, environmental, and cross-cutting concerns. In addition, the AsDB has extended technical assistance amounting to US$76.5 million for 112 projects.

Support for policy and structural reforms to improve public sector efficiency and to encourage the development of the private sector is a vital component of AsDB operations in Vietnam. So far, the AsDB has approved three policy-based program loans in the agricultural sector (US$80 million in 1994), the financial sector (US$90 million in 1996), and for SOE reform and corporate governance (US$100 million in 1999, of which US$40 million was from OCR). In addition to program lending, policy dialogue is an important feature in all of the AsDB's loan projects in Vietnam. This includes support for increased efficiency of state-owned utilities through reforming their rate structure and other measures to increase cost recovery and to strengthen financial management, policy analysis, and planning.

The resident mission has been strengthened with transfer of the programming function from headquarters. During the past year, the AsDB has helped the government organize a number of regional consultation workshops as part of the process of formulating the national poverty reduction strategy. AsDB and Fund staff work closely together to support the process of economic reforms in Vietnam. AsDB staff participate in Fund missions, exchange information, and consult on policy matters. The resident missions of the two institutions also cooperate closely.

Table 1. Vietnam: AsDB Loans by Sector, October 1993–September 2001
(In millions of U.S. dollars)

Sector	Number	Net Amount
Lending	30	1,989.6
Agriculture and agro-industry	10	584.3
Social infrastructure	9	510.3
Transportation and communication	6	525.0
Finance and industry	3	190.0
Energy	2	180.0
Technical assistance	112	76.5
Advisory and operational purposes	86	56.6
Project preparation	26	19.9

Source: AsDB.

Table 2. Vietnam: AsDB Loan Approvals and Disbursements, 1996–2001
(In millions of U.S. dollars)

	1996	1997	1998	1999	2000	2001 1/
Loan approvals 2/	303.0	359.6	284.0	220.0	188.5	--
Loan disbursements	28.7	149.3	127.8	191.2	218.9	110.8
Undisbursed balance at the beginning of the year	590.2	994.4	742.8	804.9	970.7	895.9
Memorandum item:						
Technical assistance approvals	9.1	9.3	5.9	10.3	9.1	2.1

Source: AsDB.

1/ As of September 30, 2001.
2/ For 1999, includes the Vietnam component of Greater Mekong Subregion: East–West Corridor.

Vietnam—Medium-Term Balance of Payments

The medium-term balance of payments projections for 2002–06 are based on a reform scenario which envisages a continuation of macroeconomic stability and steady structural reforms. The following specific assumptions are used:

Merchandise trade: In light of the global slowdown in 2001 and prospects for a further deterioration in world output and trade growth in 2002, overall export growth is now projected to fall to 4 percent in 2002, the lowest rate since 1998. However, over the medium term (2003–06), exports in U.S. dollar terms are still projected to grow by an average of 12 percent a year, with non-oil exports growing at an average of about 14 percent, reflecting the recovery in the world economy and the impact of the bilateral trade agreement with the United States (USBTA) (which was recently ratified by the U.S. Congress and is soon to be ratified in the National Assembly of Vietnam). The latter is expected to result in a significant expansion of export markets for garments and footwear, seafood, and electronics. Imports are projected to increase in 2002–03 on account of large investments in oil and gas and power projects approved earlier this year. Thereafter, imports are expected to increase in line with projected nominal GDP growth. Trade reform envisaged during this period would also likely contribute to import growth.

Services and transfers: Nonfactor service payments are projected to move broadly in line with merchandise imports, while receipts are expected to increase partly reflecting a steady improvement in tourism coupled with a moderate increase in interest receipts in line with the level of foreign exchange reserves. Factor service payments are projected to remain substantial, linked primarily to foreign direct investment (FDI) related loans and to equity inflows. The overall services balance is therefore expected to worsen in the next few years compared with recent years. Both official and private transfers are assumed to increase slightly over the same period.

The current account deficit is projected to be in the range of US$½–1 billion over the medium term, or 2–3 percent of GDP, which is judged to be broadly financeable.

Medium- and long-term loans: ODA disbursements have been lower than expected in 2001 and are now projected to remain subdued in 2002–03. As economic activity and financial conditions in donor countries regain strength, ODA flows are projected to start increasing moderately from 2004 onwards. In light of the more recent deterioration in capital markets, commercial borrowing (by state-owned enterprises and joint ventures) is expected to remain low in 2002, but then gradually pick-up in 2003 as access to capital markets begins to improve. Over the medium term, commercial borrowing is expected to average about US$200 million, partly including government-guaranteed debt for some core projects in infrastructure.

Foreign direct investment: FDI disbursements are expected to peak in 2002–03 at US$1.5 billion (about 5 percent of GDP), reflecting the completion of the US$1.4 billion oil and gas sector project with a consortium led by BP-Amoco and two other projects totaling some US$1 billion. Assuming an improvement in the investment climate and a recovery in East Asia starting in the latter half of 2002, FDI disbursements are projected to average US$1.3 billion over the medium term, above the depressed levels seen in the last three years. In particular, the recent ratification of the USBTA is likely to have a positive impact on FDI as U.S. firms enter Vietnam. Under the USBTA, U.S. firms can enter the market (and own 100 percent equity) for a range of technical services immediately, including in legal, accounting, computer-related, and construction activities and form joint ventures in other areas, including banking. If the pace of structural reforms improves and the authorities liberalize the trade and exchange rate system and eliminate the foreign exchange surrender requirement, which was reduced from 50 percent to 40 percent in May 2001, FDI could be larger, as several sectors including agriculture, garments and textile, and fisheries could yet benefit from FDI. The government is also actively trying to attract FDI, through further streamlining of investment procedures.

Short-term capital flows and reserves: Short-term capital movements are related mainly to the change in commercial banks' net foreign asset position, which is assumed to decline gradually over the medium term, reflecting a portfolio shift in favor of domestic assets as confidence grows. No other changes in short-term capital flows are projected. Gross official reserves are expected to increase by about US$400 million to US$4 billion (or 9 weeks of projected imports) by end 2002, reflecting the relatively adverse external environment, but to increase thereafter to reach 10 weeks of imports by 2006.

Financing gaps: On the basis of these projections, the financing gap is projected to total US$0.8 billion during 2002–03, which would be filled mainly by multilaterals, including the Fund (PRGF) and the Bank (PRSC) and bilateral official creditors.

Debt service indicators: Vietnam's total external debt at end-2000 is estimated at US$11.9 billion (39.6 percent of GDP), of which public external debt amounted to an estimated US$8.7 billion.[1] The stock of private sector debt mainly reflects loans to foreign invested enterprises extended by their parent companies, as Vietnam does not have any market access. Government borrowing is principally in the form of ODA loans. Thus, Vietnam's overall debt service is estimated at only 10.2 percent of exports of goods and services in 2001.

Over the medium to long term, with exports expected to grow at an average of 10–11 percent and assuming that Vietnam continues to benefit from FDI and concessional loans with only very limited nonconcessional borrowing, external debt service is expected to fall to 5.5 percent of exports of goods and services by 2008–09 and further decline thereafter. The NPV of total external debt to exports is estimated in the range of 40–60 percent (on average).

---

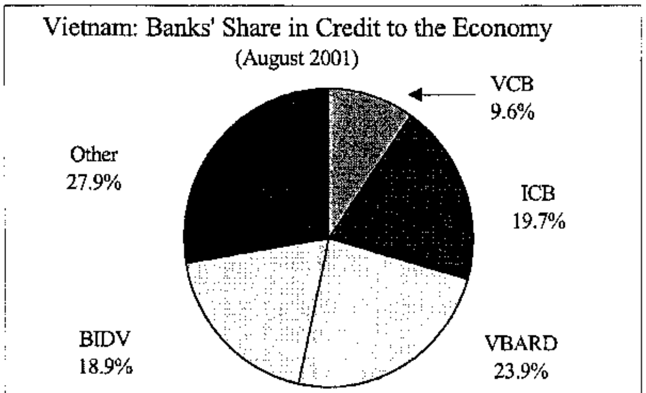
[1] Vietnam concluded a rescheduling agreement with Russia in September 2000, whereby Vietnam's debt to Russia was reduced by about 85 percent, based on an upfront discount of 70 percent and Naples treatment (50 percent NPV reduction) on the remaining amounts. As a result, the total remaining debt outstanding is US$1.7 billion, payable over 23 years, with a grace period of 6 years and an interest rate in the range of 5 percent.

Vietnam—Banking Reform

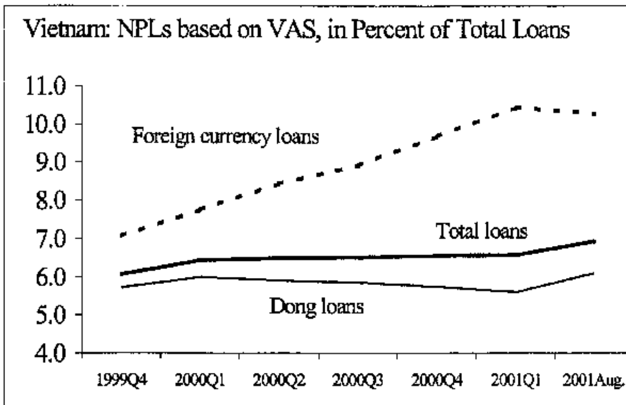
Reform of the banking system in Vietnam is central to the PRGF-supported program. The current reform approach is focused on restructuring the four large state-owned commercial banks (SOCBs) and putting them on a commercial footing. More broadly, the reform also aims at improving the legal, regulatory and supervisory frameworks for more efficient and prudential banking, and at consolidating the nonstate joint-stock banks (JSBs).

Problems in the banking system

The banking system is dominated by the four large SOCBs, which have had weak lending practices and developed a large stock of nonperforming loans (NPLs), mainly to state-owned enterprises (SOEs), and partly as a result of policy lending and directed lending by the government. In 2000 these SOCBs accounted for 88 percent of new credit extended during the year, and for nearly all the credit extended in the first half of 2001. As a result, their market share increased by 8 percentage points in only 19 months, from 64 percent at end-December 1999 to 72 percent at end-August 2001.



Source: SBV; and Fund staff estimates.



Source: SBV; and Fund staff estimates.

The rapid creation of new loans would be expected to result, initially, in a decline of the share of NPLs in outstanding credit. However, even when measured by the incomplete Vietnamese Accounting Standards (VAS), NPLs as a percent of total loans have continued to increase for the past 18 months, thus suggesting a significant and ongoing deterioration of banks' credit portfolio. Based on VAS, NPLs and unsettled debts for the four large SOCBs would amount to about 10 percent of outstanding loans at end-August 2001. Moreover, staff estimates based on diagnostic audits on international accounting standards (IAS) during 1996–1998 indicate an average NPL ratio of at least 30 percent.

As a result, the SOCBs remain seriously undercapitalized. Based on VAS, capital-asset ratios have fallen to below 5 percent on average as of end-July 2001. This measure, however, does not account for provisions and write-offs to be made for NPLs when loan classification is brought to international standards.

SOCB reform

For the banking system

The overall restructuring framework, adopted in March 2001, lays out the broad principles guiding individual SOCB reform plans. To this end, the framework contains the following key elements aimed at improving management and operations of the SOCBs:

- ***Increased transparency to assess the true size of NPLs***: Decision 284 will be amended by end 2001 to move loan classification to international standards. In the meantime, each SOCB will undertake independent external IAS audits to assess NPLs at end 2000 and provide a basis for measuring and tracking financial performance.
- ***Phased recapitalization of each SOCB over a three-year period***: SOCBs will receive annual tranches of government funds for recapitalization, but only after implementing specified reform measures and meeting bank specific financial targets as agreed on an annual basis in an explicit understanding with the SBV.
- ***A phase-out of policy and noncommercial directed lending***: Such lending by the SOCBs will be eliminated except under limited and specifically identified circumstances with explicit government guarantees.

Moreover, the SBV's restructuring framework stipulates general principles for NPL resolution through bank-specific asset management companies (AMC) and loan-workout units (LWU). Those have been developed further and adopted by the government in October as follows:

Guidelines for resolution of nonperforming loans provide for specific mechanisms and procedures. The guidelines aim to induce each SOCB to make a serious effort at recovering loan values and take measures to reduce the flow of bad loans. Key prescriptions in this context include:

- ***Creating a separate asset management company (AMC) to resolve collateralized NPLs and loan workout units (LWU) for unsecured NPLs.*** This is because the tasks of resolving secured versus unsecured loans require distinct expertise (asset valuation and disposal versus assessment of restructuring plans). Moreover, the expertise of LWUs to enforce debt workouts and avoid recurrent NPLs should become an integral part of sound banking operations.

- ***Providing debt restructuring for defaulting SOEs only if an approved SOE restructuring plan is in place.***

For individual SOCBs

Consistent with the overall reform framework, the four large SOCBs have adopted **individual restructuring plans** with bank specific reform measures and performance targets and an outline of bank specific mechanisms for bad debt resolution. For example, the Vietcombank restructuring plan, adopted in March 2001, provides for:

- ***Performance targets and reform measures***: Specific targets include a capital-asset ratio of 6 to 8 percent, a return on assets of at least 0.5 percent, and NPLs below 4 percent of total loans outstanding by the end of the three-year-restructuring period. Operational measures are expected to strengthen risk management and decision-making.
- ***Procedures for NPL resolution***: Operational measures include completion of (i) a loan classification for all loans and recovery action plans for bad loans to the 50 largest debtors in the first year, and (ii) recovery plans for bad loans to the remaining debtors by 2002. The NPL recovery rate for the LWU is tentatively targeted at 10 percent in 2001, rising to 25 percent by 2002, and 35 percent by 2003. Over the three-year restructuring period, provisions based on IAS will be phased in accordingly.

In line with the transparency guidelines in the overall reform framework, the SOCBs have also committed themselves **to annual IAS audits by external auditors** beginning with the financial year 2000 statements.

Moreover, the SOCBs are subject to an **SBV directive containing bank specific milestones for loan restructuring and operational targets.** This directive governs the minimum conditions in the form of quarterly milestones for a phased recapitalization of each of these SOCBs. In order to commit SOCBs to meaningful recovery efforts and avoid the resurgence of new bad loans, the milestones include:

- ***Quantitative debt resolution targets:*** By-end March 2002 the four large SOCBs as a group are required to resolve at least D 1.4 trillion, equivalent to about 10 percent of recoverable NPLs. Resolution targets for later test dates are expected to be agreed once the results from IAS audits of the 2000 financial statements become available, and will also be set on the basis of revised classification on international accounting standards.

- ***Operational targets:*** The SOCBs are required to establish by end-March 2002 credit risk management and internal audit committees; by end-June 2002, to agree on qualifications from the 2000 IAS audit that are to be eliminated by end-2002 and sign contracts for the external IAS audits for the year 2001; by end-September 2002, to pass special SBV examination of credit file documentation; and by end-December 2002, to complete the 2001 external audits without qualifications as agreed in June 2002.

It is understood that future milestones would be specified on the basis of experience with the implementation of earlier milestones and developments in SOCB conditions.

Progress on JSB restructuring

The banking system includes 48 JSBs, which are privately owned and typically operate on a limited local scale. By end-2000, the State Bank of Vietnam (SBV) had completed the financial assessment of these banks and placed 13 banks under special supervision, with two licenses revoked and one bank merged. In the first half of 2001, licenses of four additional problem banks were withdrawn and one bank was taken over by Vietcombank, the state-owned commercial bank for foreign trade. In addition, licenses of a number of other JSBs with weak prudential ratios would be revoked unless they meet capital adequacy targets by October 2001. Over the next two years, the total number of JSBs is expected to be reduced by one-half.

Improvements in legal and regulatory framework

Improvements in the legal framework aim at increased transparency and efficiency of the banking sector, promoting the resolution of bad debt, and enhancing prudential supervision. In this context, as noted earlier, loan classification is to be brought closer to international standards (in particular to classify entire loan values rather than only the overdue installments as nonperforming), and loan loss provisioning will be phased in over a three-year period.

Technical assistance is being provided by the World Bank in addressing impediments in the legal framework to the resolution of bad debt and disposal of collateral, including a strengthening of creditor rights to facilitate foreclosure and liquidation of assets. This will help enhance the effectiveness of AMCs and LWUs in their loan recovery efforts.

Moreover, the SBV issued in September 2001 a decree establishing a deposit insurance scheme that helped to level the playing field in the mobilization of dong for JSBs, foreign bank branches and SOCBs. Remaining restrictions on foreign banks are expected to be relaxed gradually.[1]

Improvements in prudential supervision are expected to include adoption of a risk-based approach to banking supervision, and reinforcement of on-site inspection and off-site supervision. Relevant capacities and skills are expected to be strengthened through training programs and the development of new manuals for supervision. In this context, banks have begun to work closely with foreign bank branches in such areas as payments systems and internal audit procedures. This cooperation could also lead to twinning arrangements over the medium to long-term.

---

[1] Major impediments on foreign banks include regulations (i) prohibiting the intake of foreign currency deposits from households, and (ii) limiting the intake of dong deposits from households or economic entities (that are not borrowers) to 25 percent of bank capital.

Vietnam—Statistical Issues

The reliability and coverage of macroeconomic statistics are limited. The methodology for compilation and dissemination of these statistics continues to need substantial improvement, so that data properly reflect economic developments and aid policy formulation, implementation, and monitoring. The authorities are cooperating with the Fund, but work is hampered in some areas by the lack of authorization to release data. Vietnam has few statistical publications that provide coverage beyond the real sector, and despite the recent publication of aggregate budget data, Fund documents are among the few publicly available sources of fiscal and monetary data. A Vietnam page was introduced in the *GFS Yearbook* in 1999 and in *IFS* in 2001. Currently, Vietnam reports partial data for the balance of payments statistics to the Fund, but the amount of detail is insufficient for publication in either *IFS* or the *Balance of Payments Statistics Yearbook.*

Extensive technical assistance from the Fund has contributed to improvements in a number of statistical areas. Most recently, a STA multisector statistics/General Data Dissemination System (GDDS) mission in July 2001 reviewed statistical practices and developments in the areas of national accounts, prices, external trade, fiscal, monetary, balance of payments, and socio-demographic data. It found a number of major deficiencies and recommended corrective actions in an action plan, including possible follow-up technical assistance. The authorities were encouraged to make a timely decision regarding participation in the GDDS.

National accounts

The General Statistical Office (GSO) provides quarterly and annual data on gross domestic product (GDP) by type of economic activity and by expenditure (both in current and constant prices), and monthly and annual data on external trade, industrial output, agricultural production, retail sales, and prices. While the methodology for producing national accounts is broadly consistent with the *System of National Accounts 1993,* the recent STA mission found that the compilation process suffered from poor data collection practices and a lack of coordination and communication between data collection agencies.

While estimates of GDP by expenditure have been produced since 1998, they are in highly aggregated form, and further work is needed to develop a set of expenditure deflators. Although coverage has been broadened recently, the authorities need to focus on improving data collection from the nonstate sector (including informal sector activity), which remains quite weak. In addition, much data on national accounts are compiled before the end of the reference period, requiring data providers to resort to forecasting data in the remaining period in order to derive relevant estimates.

Prices

A monthly consumer price index in line with international standards has been compiled since January 1996. The new series was phased in over a two-year period and is now reported with minimal lags. Effective July 2001, the GSO changed the CPI to reflect a higher nonfood weight and broader consumption basket. The introduction of a producer price index is planned in late 2001. Trade price indices are also compiled, but not used in the national accounts by the GSO because the sample size is deemed too small.

Government finance statistics

The Ministry of Finance's (MoF) State Budget Department produces provisional monthly, quarterly, and annual fiscal data on government operations shortly after the end of the reference period; final data for the fiscal (calendar) year are produced after about six months. These data reflect the consolidated operations of the state budget, which covers all four levels of government: central, provincial, district, and commune. They exclude data on quasi-fiscal activities of SOEs and extrabudgetary funds, among which are the Social Security Fund, Enterprise Restructuring Fund, National Development Support Fund, Export Support Fund, and Sinking Fund (for repayment of on-lent funds), for which no regularly reported data are currently compiled.

The time of recording data is mainly on a cash basis for final annual data, but varies for provisional data depending on their source. As a result, government financing data, in particular domestic bank financing, cannot be reconciled as reported in the fiscal and monetary accounts. Like the national accounts, provisional data are compiled before the end of the reference period and thus involve a forecasted component. The quarterly data are only revised when data are compiled for the same quarter of the following year. The Department of External Finance in the MoF has a centralized record of all general government external debt. The MOF, with support from the UNDP, aims to strengthen the external debt management system, particularly the recording of disbursements and multiple currency loans.

Despite these shortcomings, the authorities have made progress in a number of other areas related to fiscal transparency, including implementation of an improved budget management law and adoption of a GFS-consistent budget classification at all levels of government. The authorities published for the first time in late 1998 the fiscal outturn for 1997 and the approved budget for 1999, although both in highly aggregated form. However, considerable actions remain to be taken to improve the coverage of fiscal data as recommended in the 1998 Bank-Fund report on fiscal transparency, the 2000 Public Expenditure Review, and, most recently, the STA multisector statistics mission.

In this context, the government continues to work towards gazetting and publishing the annual national budget, as well as commune levels budgets; preparing quarterly fiscal reports for budget monitoring within 30 days after the end of the reference quarter; implementing the GFS-based functional budget classification system; initiating work on revising government accounting standards; and introducing an integrated financial management system (IFMS) for improving treasury management and fiscal reporting. The STA mission found that the functional classification had not yet been fully aligned with internationally recognized classification standards, which might hamper formulation, execution, and monitoring of fiscal policy. The IFMS will allow a detailed classification of provisional budget data (as well as final accounts). In addition, it will incorporate data on extra-budgetary funds into the Treasury database.

Monetary and financial statistics

The State Bank of Vietnam (SBV) regularly reports monetary and financial data to the Fund, including: (i) the monetary survey and the central bank balance sheet (on a monthly basis and typically with a six- to eight-week lag); (ii) detailed consolidated balance sheets ("derivation tables") for six state-owned and 83 nonstate deposit money banks, and individual balance sheets for the four large state-owned commercial banks (SOCBs) (since the beginning of 2001 on a monthly basis and typically with an eight- to ten-week lag); and (iii) deposit and lending rates of the large SOCBs (on a monthly basis and for a variety of maturities). Data on foreign reserves (gross and net official international reserves and net foreign assets of the banking system) are derived from the monetary survey. In addition, under the PRGF-supported program, data on official reserves are reported to the Fund on a bi–weekly basis with a 10-day lag.

In January 1999, the SBV and commercial banks began implementing new charts of accounts for compiling money and banking data. The new charts of accounts were formally adopted in April 1999. However, they do not adequately sectorize credit for monetary programming purposes, in particular the separation of bank credit to SOEs and to other nonstate sectors of the economy. Therefore, in addition to its regular monthly reports, the SBV has designed a new monthly report form for the four large SOCBs for submitting sectorized credit data to the central bank. For program monitoring purposes, bank credit to the SOEs is being estimated based on a combination of these statistical reports and estimates for the other credit institutions. Given the SOCBs dominance in bank lending to SOEs, the overall margin of error of these estimates is believed to be below 5 percent. Furthermore, the recent STA mission encouraged the SBV to develop a reporting scheme for a comprehensive breakdown of banks' credit to the economy by borrowing sectors, subsectors, and ownership of enterprises.

External sector statistics

The SBV compiles quarterly and annual balance of payments (BOP) data with a one- to two-month lag. Since 1995, monthly and annual trade data have been compiled using customs reports, but a STA balance of payments technical assistance mission in December 1996 raised questions about the coverage and accuracy of the data. Problems have persisted, as reflected in the large share of monthly reported exports (approximately 30 percent) for which the individual commodity breakdown is unknown. Data on invisibles continue to be based largely on banking records, which provide incomplete coverage and identification of the types of transactions. Improvements in BOP statistics also continue to be hampered by interagency coordination problems, in particular foreign direct investment (FDI).

Data on FDI are now compiled by the SBV based on quarterly and semi-annual survey reports received from foreign-invested enterprises operating in Vietnam and supplemented by reports from SBV branches. The Ministry of Planning and Investment (MPI) also collects administrative data on FDI. However, at the September 2000 ASEAN Workshop on Improving the Quality of FDI Data, the Vietnamese authorities indicated that problems persisted with the survey response rate, as not all FDI enterprises were providing the requested information. Moreover, the recent STA mission noted that no effort was made to distinguish head office and other non-resident liabilities in the reported data.

Data on contracting commercial debt (namely by SOEs and privately owned firms) are maintained by the SBV. Some loans are reported only after an extended delay, and the reporting of disbursements and repayments remains poor. Data on contracting, disbursement, and service of official debt are maintained by the MoF. The MPI also reports the loan obligations of foreign investors. The STA mission found that the overlapping responsibility for debt statistics has at times resulted in some deficiencies in coverage, including the lack of monitoring certain leasing arrangements (e.g., for aircraft).

Vietnam recently provided for the first time more complete balance of payments data for publication in the *International Financial Statistics* and in the *Balance of Payments Statistics Yearbook*. However, these data have not yet been published pending resolution of a number of queries.

Vietnam: Core Statistical Indicators[1/]
(As of November 6, 2001)

	Exchange rates	International reserves	Reserve/ base money	Central bank balance sheet	Broad money	Interest rates	Consumer price index	Exports/ Imports	Current account balance	Overall government balance	GDP/GNP	External debt
Date of latest observation	10/31/01	10/26/01	8/01	8/01	8/01	9/01	10/01	10/01	2001Q2	2001Q3	2001Q3	2000
Date received	10/31/01	11/05/01	10/01	10/01	10/01	10/01	10/01	10/01	9/01	11/06	10/01	2/01
Frequency of data	D	Bi-weekly	M	M	M	M	M	M	Q	Q	Q	O
Frequency of reporting	D	Bi-weekly	M	M	M	M	M	M	Q	Q	Q	A
Source of data	C/A[2/]	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting	E	E	E	E	E	C	C	C	C	E	C	V
Confidentiality	C	B	B	B	B	C	C	C	B	C	C	B
Frequency of Publication	D	N	N	N	A	O	M	M	A	A	Q	N

1/ The codes are as given below:

Frequency of data and reporting: D-daily, M-monthly, Q-quarterly, A-annual, O-irregular (when changed).
Source of data: A-direct reporting by the authorities, C-commercial electronic data provider, N-official publication.
Mode of reporting: E-electronic data transfer, C-cable or facsimile, V-irregularly in conjunction with staff visits.
Confidentiality: A-staff only, B-staff and Board, C-public.
Frequency of publication: D-daily, M-monthly, Q-quarterly, A-annual, O-irregular, N-not published.

2/ Initial source is commercial electronic data provider, which is later verified by direct reporting by the authorities.

Vietnam—Poverty Profile

Despite considerable progress in reducing poverty, Vietnam is still one of the poorest countries in East Asia, with a per capita GDP of only US$388 in 2000. Based on the 2001 World Development Indicators, per capita GDP in Vietnam was only about one-third the average level recorded in the countries of the East Asia and Pacific region. The most salient trends in Vietnam's poverty profile can be summarized as follows:[1]

- **Poverty has declined considerably in recent years.** The share of persons living below the poverty line fell from 58 percent in 1992/93 to 37 percent in 1997/98. The share of persons below the "food poverty line" also declined significantly over the same period, from 25 percent to 15 percent.[2]

- **Poverty is mainly concentrated in rural areas.** Over 90 percent of poor households live in rural areas; 45 percent of the rural population was living below the poverty line in 1997/98, compared with 10 percent of the urban population.[3]

- **Poverty has declined in all seven regions of Vietnam, but cross-regional inequalities have increased.** Poverty is particularly high in the mountainous areas and those with large ethnic minorities. Three regions now account for 70 percent of poverty: Northern Uplands, North Central Coast, and Mekong Delta. While incomes in the Mekong Delta grew only by 18 percent, they advanced by 78 percent in the Southeast (mainly comprising Ho Chi Minh City) between 1992/93 and 1997/98.

- **Inequality has risen, but is still modest by international standards.** Based on the 1997/98 Vietnam Living Standards Survey and augmented data, the gap between the richest and poorest quintiles increased from a factor of 7.3 in 1996 to 8.9 in 1999.

---

[1] These key findings are based on the joint government, donor, and NGO reports titled *Vietnam Development Report 2000: Attacking Poverty* (1999), and the 1992/93 and 1997/98 Vietnam Living Standards Surveys conducted by the General Statistics Office with assistance from the UNDP, SIDA, and World Bank (covering 4,800 and 6,000 households, respectively). They are also reflected in the government's interim Poverty Reduction Strategy Paper (I-PRSP).

[2] Defined as the cost to obtain daily food equivalent of 2,100 kcal.

[3] The latest living standard survey excluded migrants without a permanent residency permit and therefore likely underestimated urban poverty. Adjusting for unregistered urban migrants, the World Bank estimates the incidence of urban poverty was in the range of 10–15 percent in 1998.

- **Vulnerability to shocks is high, as many households live barely above the poverty line.** As a result, each year the number of persons who need emergency relief due to natural calamities ranges from 1 to 1.5 million.

- **School enrollment rates have increased significantly both for male and female students.** Between 1992/93 and 1997/98, net primary school enrollment rates went up from 87 to 92 percent for girls and from 86 to 93 percent for boys. Net lower secondary enrollment rates doubled for both girls (to 61 percent) and boys (to 62 percent), and net upper secondary enrollment rates quadrupled—for girls from 6 to 27 percent and for boys from 8 to 30 percent.

- **As a result, relatively high education standards have been further improved.** Between 1992/93 and 1997/98 literacy rates increased on all fronts, but particularly in rural areas, from 85 to 88 percent, and for the female population, from 82 to 86 percent. By comparison, urban literacy went up from 93 to 94 percent, and male literacy from 91 to 94 percent during the same period.

The government's I-PRSP identifies achieving fair and equitable growth, in particular between rural and urban areas, and reducing the vulnerability of the poor as key imperatives of its poverty reduction strategy. As growth from agricultural diversification is reaching its limit, the challenges ahead are in accelerating the creation of rural nonfarm and urban employment opportunities, with small- and medium-scale enterprises playing a significant role.

Work has begun on a Comprehensive Poverty Reduction and Growth Strategy Paper (CPRGSP) which is expected to be completed by April 2002 and will also serve as a PRSP. To this end, a workshop was held in September 2001 with 90 participants from a broad range of Vietnamese and international agencies. The purpose of the workshop was to agree Vietnam Developments Targets, Goals and Indicators (VDTs) that are consistent with the International Development Targets (IDTs) – renamed the UN Millennium Development Goals (MDGs). Based on the existing seven MDGs, the workshop agreed on 11 development goals and 25 subtargets for Vietnam that will be used to finalize the CPRGSP as indicated below:

Vietnam—Development Goals and Targets

Haiphong Workshop September 2001

Goals	Targets
1. Eradicate poverty and hunger	• Between 2000 and 2010 reduce poverty according to international poverty line by two-fifths and according to national poverty line by three-quarters. • Between 2000 and 2010 reduce food poverty according to international food poverty line by three-quarters.
2. Ensure good governance for poverty reduction	• Improve access of the poor to a more transparent, accountable, predictable, and participatory government.
3. Provide essential infrastructure services to the specially disadvantaged poor	• Provide essential infrastructure service to 75 percent of poor communes by 2005 and to 100 percent of poor communes by 2010.
4. Ensure environmental sustainability	• Improve access to safe water, with targets to be decided, by 2010. • Increase forest coverage, with targets to be decided, by 2010. • Reduce pollution, with targets to be decided, by 2010.
5. Achieve better education for all	• Provide quality basic education for all by 2010 with emphasis on full day primary education. • Eliminate gender disparities in primary and secondary education by 2005 and ethnic disparities in primary and secondary education by 2010.
6. Reduce child mortality	• Reduce the infant mortality rate to 30 percent by 2005 and 25 percent by 2010. • Reduce under 5 mortality rate to 39 percent by 2005 and 32 percent by 2010. • Reduce under 5 malnutrition to 25 percent by 2005 and 20 percent by 2010.
7. Improve maternal health	• Reduce the maternal mortality rate to 80 per 100,000 by 2005 and 70 per 100,000 nationally and 100 per 100,000 in mountainous areas by 2010.
8. Combat HIV/AIDS	• Slow the increase in the spread of HIV/AIDS by 2005 and halve the increase by 2010.
9. Eradicate poverty and preserve the culture and diversity of ethnic minorities	• Allocate individual and collective land-use rights to the majority of mountainous people. • Preserve and develop literacy in the local language. • Further increase proportion of government personnel of ethnic origin.
10. Reduce vulnerability and strengthen the social safety net	• Strengthen effectiveness of the social safety net. • Increase average income of the poorest quintile to 140 percent of their level in 2000 by 2005 and to 190 percent by 2010. • Halve the rate of the poor falling back under the poverty line (from about 5–7 percent of the population) due to natural disasters and other risks by 2010. • Reduce unemployment rate in urban areas to below 5 percent and increase working time rate in the rural areas to 80–85 percent by the year 2010.
11. Reach gender equality and empower women	• Establish the policy framework and mobilize social resources to reduce domestic violence. • Increase women's participation in political and business life by increasing the number of women in elected bodies and the government machinery at all levels (national, provincial, district, and communes) • Improve women's access to assets by ensuring their names (as well as those of their husbands) are on the land-titling books. • Reduce the vulnerability of women to domestic violence. • Target public investments into areas that reduce the burden on women's time (such as drinking water and fuel).

Vietnam: Social and Demographic Indicators

Indicator	Unit of Measure	1985	1993	1999	Same Region/ Income Group: East Asia	Same Region/ Income Group: Low-Income
		(or latest year available)				
Poverty						
Upper poverty line 1/	Thousand dong	...	1,160	1,790	...	...
Percent of population living below		...	58	37	...	...
Food poverty line 1/	Thousand dong	...	750	1,287	...	...
Percent of population living below		...	25	15	...	...
GDP per capita	U.S. dollars	...	196	373	1,032	427
Access to safe water: total	Percent of population	...	26	39	...	...
Urban	Percent of population	...	60	75	...	...
Rural	Percent of population	...	17	29	...	...
Access to health care 2/	Percent of population	75	93	97	...	...
Health						
Mortality						
Infant mortality	Per thousand live birth	63	42	29	35	77
Under 5 mortality	Per thousand live birth	105	55	40	44	116
Immunization						
Measles	Percent of age group	19	93	96	83	64
DPT	Percent of age group	42	91	95	82	70
Child malnutrition (under 5)	Percent of age group	52	51	34	12	...
Maternal mortality rate	Per 100,000 live births	110	...	100	...	...
Population per physician	Persons	4,061	2,428	2,198	909	...
Population per nurse	Persons	1,245	723	785	...	...
Population per hospital bed	Persons	271	355	399	334	...
Human resources						
Population	Millions	59.9	69.2	76.6	1,837	2,417
Age dependency ratio	Ratio	0.81	0.74	0.7	0.51	0.72
Urban	Percent of population	19.6	19.8	23.6	34.5	31.4
Population growth rate	Annual percent	2.2	1.7	1.5	1.1	1.9
Urban	Annual percent	2.4	3.4	3.5	2.8	3.4
Life expectancy	Years	62	67	68	69	59
Female advantage	Years	3.8	4.5	4.8	3.5	2.2
Total fertility rate	Births per woman	4.6	3.3	2.4	2.1	3.7
Labor force (15-64)	Millions	28.8	36.2	39.1	1,039	1,090
Female	Percent of labor force	49	49	49	44	38
Natural resources						
Area	Thousands sq. km.	325	325	325	15,969	33,008
Density	Persons per sq. km.	184	213	235	115	73
Agricultural lands	Percent of land area	21	24	26	...	...
Agricultural land under irrigation	Percent	28	28	30	...	...
Forests and woodland	Thousand sq. km.	97	83	109	...	...
Energy consumption per capita	Kg. of oil equivalent	80	105	...	857	550
Income						
Share of top 20 percent of households	Percent of income	...	44	...	...	...
Share of bottom 40 percent of households	Percent of income	...	19	...	...	...
Share of bottom 20 percent of households	Percent of income	...	8	...	...	...
Education						
Gross enrollment ratios						
Primary	Pct. of school age population	103	87	93	119	...
Male 3/	Pct. of school age population	106	86	93	121	...
Female 3/	Pct. of school age population	100	87	92	121	...
Secondary	Pct. of school age population	42	47	...	69	...
Pupil-teacher ratio: secondary	Pupils per teacher	23	21	28	...	...
Illiteracy	Percent of population age 15+	13	11	6	15	39
Female	Percent of female age 15+	19	16	11	22	48
Newspaper circulation	Per thousand population	9	8	7	...	...

Sources: Vietnam: *Statistical Yearbook* (various years), and General Statistical Office, *Vietnam Living Standards Survey 1997-1998*; World Bank: *Vietnam Development Report 2000: Attacking Poverty,* and Vietnam Development Report 2001: Entering the 21st Century, and World Development Indicators; and staff estimates.

1/ The upper poverty line is constituted by the cost of a representative food bundle yielding 2,100 calories per day, plus a representative nonfood component. The lower poverty line represents the approximate cost of this food bundle only.

2/ For 1993 and 1998, rural population.

3/ For 1993 and 1998, net enrollment ratios.

SOCIALIST REPUBLIC OF VIETNAM

Hanoi, November 7, 2001

To : Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Köhler,

On April 13, 2001, the Executive Board of the IMF approved a three-year arrangement for Vietnam under the Poverty Reduction and Growth Facility (PRGF). The purpose of this letter is to inform you on the progress in implementing the first-year economic program, and to request the second loan disbursement following the completion of the first review under the arrangement.

The attached Memorandum of Economic and Financial Policies (MEFP) supplements the MEFP of March 14, 2001, and sets out the objectives and policies that the Government of Vietnam intends to pursue during the remainder of 2001 and the first half of 2002.

Vietnam's economic performance in 2001 has been positive, despite the adverse effects of the global economic slowdown. Macroeconomic policies have been prudent and progress has been made in the key structural areas. As a result, the program targets for the first PRGF review have been achieved for the most part. The Government of Vietnam believes that the policies it intends to implement in the period through June 2002, as described in the MEFP, will build on this favorable performance, help sustain economic growth and reduce poverty, and cushion the economy in an uncertain external environment. On this basis, it requests completion of the first review under the arrangement; waivers for the nonobservance of the end-June 2001 performance criteria on bank credit to state-owned enterprises (SOEs) and on net international reserves and of the end-September structural performance criterion on bank audits, taking into account the nature of the nonobservance; and modification of the end-December performance criteria on bank credit to SOEs.

The government believes that the policies and measures set forth in the MEFP are adequate to achieve the objectives of the program supported by the PRGF arrangement, but will take further measures if deemed necessary. During the remaining period of the arrangement, Vietnam will continue to consult with the Managing Director on the adoption of measures that may be appropriate, at the initiative of the government or whenever the Managing Director requests such a consultation. The government will continue to provide the IMF with such information as it requires to assess Vietnam's progress in implementing the economic and financial policies under the program.

The government intends to make these understandings public and authorizes the IMF to provide this letter and the attached memorandum to all interested parties that so request them, including through the IMF's external website.

We can assure you that the Government of Vietnam is determined to fully implement the program, and we hope we can count on the continued support of the IMF in our endeavors.

Sincerely yours,

Le Duc Thuy
Governor
State Bank of Vietnam

Supplementary Memorandum on Economic and Financial

Policies of the Government of Vietnam for September 2001–June 2002

November 7, 2001

I. Introduction

1. Vietnam's ongoing medium-term economic program is being supported by a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF). Consistent with the goals set out in our Memorandum on Economic and Financial Policies (MEFP) dated March 14, 2001, this supplementary memorandum reviews the implementation of the program so far in 2001 and sets out our policies for the remainder of the first program year through June 2002.

II. Overall Progress so far in 2001

2. Economic performance has been encouraging and in line with the program, notwithstanding the global downturn. Overall economic activity has been bolstered by domestic demand, notably a revival of investment reflecting improved business sentiment. Inflation remains in check, owing mainly to restrained fiscal and credit policies, and the external position is satisfactory despite weakening demand. With exports slowing more than envisaged, real GDP growth for the year is estimated by the IMF staff to be in the range of 4½–5 percent, marginally below that programmed. Nonetheless, the targets for end-2001 for inflation (under 5 percent) and gross international reserves (US$3.6 billion) remain achievable (Table 1).

3. Macroeconomic policy implementation has been largely on track, and all but two of the performance criteria for end-June have been met.

- The fiscal stance so far in 2001 has been more cautious than programmed. In the first half of 2001, revenue was performing well across all categories, whereas spending for structural reforms and for capital projects fell short of targets, reflecting the slow pace of implementation. As a result, domestic bank financing has been avoided and the programmed limits on bank credit to government have been met comfortably.

- Credit policy has been restrained. By end-June, credit growth slowed to 29 percent, close to the programmed 28 percent, thanks to a firm stance on State Bank of Vietnam (SBV) refinancing and, since May, on the domestic base lending rate, as well as tight dong liquidity (Table 2). As a result, the end-June program limit on net domestic assets (NDA) of the banking system was met. However, the performance criterion on bank credit to SOEs was missed, owing to bank credit to support farm prices for coffee and rice, in order to ease the impact on farmers of a slump in world commodity prices.

- The exchange rate has been allowed to depreciate by 3½ percent since May 2001, and the surrender requirement was reduced in May from 50 to 40 percent. Net international reserves (NIR) have been broadly on track since then, even though the performance criterion for end-June was marginally missed owing to the delayed disbursement of the PRSC.

4. Progress on the structural front has been uneven, and we are taking action to redress the slippages so far.

- Trade policy initiatives have been more ambitious than programmed (Annex I). Under the five-year import and export regime (covering 2001–05) announced in April this year, the timetable for the removal of quantitative restrictions (QRs) for three of the six items covered under the PRGF understandings (steel, vegetable oil, and construction glass) has been advanced by one year to end-2001. Also, the timetable for QR removal on a subset of two additional items (automobiles and motorcycles) has been advanced to end-2002. Finally, in May 2001, QRs on five out of eleven items were removed ahead of schedule (alcohol, ceramic and granite tiles, clinker, paper, and 10–16 seat passenger vans).

- Implementation of the Enterprise Law has been effective in promoting private enterprises, and under the amended Foreign Investment Law, FDI is gradually reviving.

- However, reform of the state-owned commercial banks (SOCBs) is proceeding behind schedule. Finalization of the restructuring plans for three out of four large banks (Incombank, BIDV, and BARD) took longer than envisaged, as did the awarding of contracts for audits on international standards (IAS) for Vietcombank and Incombank.

- State-owned enterprise (SOE) reform has been slow. As of end August 2001, 93 SOEs have been equitized, compared with the target of 450–500 equitizations set for 2001 under our three-year plan.

III. Macroeconomic Framework and Policies for September 2001–June 2002

5. We remain committed to implementing the reform strategy supported by the PRGF arrangement and believe that, notwithstanding weakness in Vietnam's external environment, the program's medium-term macroeconomic framework is broadly achievable. With a global upturn in 2002 and continued reform momentum in Vietnam, real GDP growth is targeted to rebound to 6–7 percent by 2003, and inflation to stay below 5 percent. The underlying external position for 2002–03 should continue to be sound, with the current account deficit in the financeable range of 2–4 percent of GDP and an increase in reserves to 9–10 weeks of import cover.

Fiscal policy

6. In the fiscal area, the overall budget deficit (excluding onlending) in 2001 is being limited to 3 percent of GDP, close to the program target. Revenue, especially non-oil, is expected to perform better than envisaged, owing in part to improved VAT collection. Expenditure will rise on account of stepped up capital spending and, to a limited extent, the introduction of interest subsidies for farm price support loans and export promotion schemes. Such special support will be temporary, as the rural sector is being assisted mainly through capital spending in economic and social infrastructure. In particular, the share of social capital expenditure will rise to 38.5 percent of total capital spending.

7. A continued cautious framework will be adopted for the 2002 budget now under preparation, aimed at stabilizing public sector debt over the medium term. Based on conservative assumptions and in the face of an uncertain external outlook, revenue would be targeted at 20–21 percent of GDP, through a strengthening of revenue administration and measures to rationalize tax policy, drawing on IMF technical assistance. The VAT law is being revised to reduce the number of VAT rates and exemptions, to be made effective in the year 2003 budget. Expenditure would be kept at around 24½ percent of GDP. Emphasis will be given to restoring better balance between capital and current expenditure, and to spending on priority social sectors to help sustain activity and, as necessary, to support SOCB and SOE reforms. Poverty-reducing expenditures will be more closely monitored, and steps will be taken to further enhance the transparency and efficiency of government operations. The overall budget deficit, originally projected at 3 percent of GDP, is targeted to be in the range of 3–4 percent of GDP, and domestic financing will be capped at D 10–15 trillion (2–3 percent of GDP). Additional fiscal provisions for the capital costs of SOCB/SOE reforms are being finalized. These and the associated financing are in line with the government's preliminary estimates originally adopted under the PRGF, and will be reviewed periodically with the IMF staff.

Monetary and external sector policies

8. In the monetary area, the priority will be to restrain credit growth to protect banks' asset quality while providing adequate credit for sustained growth. The monetary program now targets credit growth at around 10 percent in the first half of 2002. Moreover, the effectiveness of bank credit to SOEs will be further improved to strengthen their financial discipline. SBV refinancing will be limited to D 1.75 trillion for the first half of 2002, and greater reliance will be placed on indirect monetary instruments to achieve the credit program objectives. In addition, given the recent rise in foreign currency deposits (FCDs), the SBV will strive to strengthen credit risk management in banks, especially in SOCBs, and will closely supervise foreign currency loan operations and ensure the liquidity and quality of foreign assets held by banks, through tighter prudential regulations and reporting requirements in this area. In addition, the SBV will pursue appropriate interest rate and exchange rate policies to enhance confidence in the dong.

9. To this end, the government remains committed to a flexible exchange rate policy, and intervention in the exchange market will be limited to addressing disorderly conditions. Quarterly benchmarks for net international reserves have been set through June 2002, in line with the expected strengthening of the external position and maintenance of a flexible exchange rate policy. The surrender requirement will be further reduced, and will be phased out within the PRGF period. The two remaining exchange restrictions will also be removed well within the program period, so as to enable Vietnam to accept the obligations under Article VIII of the Fund's Articles of Agreement.

10. A prudent external debt management policy will continue. Government borrowing will remain mostly on concessional terms consistent with program limits, and government guarantees for nonconcessional debt contracted by SOEs will be kept within the program limits, with careful appraisal of project viability and the risk coverage confined to the minimum necessary.

A. Key Structural Reforms

Banking reform

11. In line with our banking reform strategy adopted under the PRGF-supported program, we will intensify efforts to restructure the four large SOCBs by:

- Implementing individual restructuring plans for all four banks, which have now been approved by the government and which are in line with the overall SOCB reform framework adopted under the PRGF.

- Implementing the operational guidelines for SOCB financial restructuring, which have also been approved by the government. These guidelines provide for financial incentives, through conditional recapitalization over three years, for banks to strengthen credit risk management. They also link debt relief to SOE restructuring. Under these guidelines, bank asset management companies will be endowed with sufficient power to seize and effectively dispose of collateral; and bank loan workout units will be equipped with sufficient mandate and leverage to work out appropriate forms of debt resolution, depending on the specific financial/operational conditions of the individual debtor.

- Completing IAS audits of Vietcombank by January 2002 and for the other three banks by December 2001, in order to allow a more realistic assessment of nonperforming loans (NPLs) and set a more transparent standard for monitoring these banks.

- Monitoring performance of banks against milestones that have been set for individual banks (in consultation with World Bank and IMF staff), consistent with the above guidelines and explicitly incorporated in an SBV directive. These milestones include targets for NPL recovery and for loan workout efforts. Meeting the March 2002 milestone for the resolution of at least D 1.4 trillion of potentially recoverable NPLs of the four large SOCBs is a structural performance criterion governing the third PRGF disbursement (Annex II), and satisfactory performance against the first-year milestones generally will trigger the initial phase of bank recapitalization.

- Making fully operational the unit that has recently been set up to oversee the implementation of SOCB reform (under the Interministerial Committee for SOCB financial restructuring), including the monitoring of performance against the above milestones.

12. As a key step for strengthening bank supervision, we will revise the criteria for loan classification under Decision 284 in accordance with international standards by end-2001. A timetable for moving provisioning onto the new classification standard within three years has also been set depending on funding sources outside of the banks. With respect to the joint-stock banks (JSBs), following closure/merger of seven banks so far (out of 48), further progress will be made to consolidate the system and strengthen the financial conditions of these banks, towards the aim of halving the number of banks through closure/merger.

Private sector development and SOE reform

13. Promotion of the private sector is a priority. We are further strengthening the implementation of the Enterprise Law. Licensing requirements will be lifted for additional business subsectors, a decree on small and medium-sized enterprises (SMEs) is being adopted, and the Land Law is expected to be amended in October. A decree transforming wholly state-owned enterprises into limited liability companies operating exclusively under the Enterprise Law has also been approved. Furthermore, a decree was issued in August to promote FDI, entailing provisions for phasing out the dual pricing system and for further streamlining the licensing and administrative procedures for foreign-invested enterprises.

14. We will take steps to accelerate SOE reform and strengthen the framework for equitization in order to achieve our three-year targets within the original timeframe adopted in April 2001. These include issuing implementation guidelines with respect to SOE debt resolution and safety nets for labor redundancies, providing the monitoring unit in the National Steering Committee for Enterprise Reform and Development (NSCERD) with enforcement power, and publishing a rephased three-year roadmap. Furthermore, to enhance the effectiveness and integrity of the equitization process, caps on shareholdings in equitized SOEs by individuals and legal entities will be removed at the latest by end-2001; and the responsibility for issuing, selling, and registering shares is also being removed from SOE management. Finally, the system to monitor debt and budget support of 200 large SOE debtors is being strengthened to ensure timely and accurate reporting from concerned SOEs, including amending the Ministry of Finance (MoF) decision in this area to clarify the quarterly reporting requirements and to introduce sanctions against late reporting.

15. Further trade reform measures are being taken in the remainder of 2001, in line with our trade reform roadmap. These include replacing QRs for three items (steel, vegetable oil,

and construction glass) with tariffs, implementing the 2001 tariff reductions under AFTA, and auctioning at least at 25 percent of the garment export quota while continuing to improve the auction process.

16. We have begun work on a Comprehensive Poverty Reduction and Growth Strategy Paper (CPRGSP) to be completed by April 2002. The CPRGSP will lay out the broad policy agenda for tailoring international development goals to Vietnam's circumstances, and for linking these goals to policy actions. In addition, we have drawn up a plan for strengthening consultations and are seeking technical support from the international community for incorporating the social impact analysis of reform into the CPRGSP framework.

IV. Program Monitoring and Policy Transparency

17. The government will undertake a number of prior actions ahead of the IMF Executive Board consideration of the first PRGF review, in order to keep the program on a solid footing (Table 3). Table 4 contains quantitative performance criteria for end-December 2001 and quantitative benchmarks for end-March and end-June 2002; structural policy undertakings are summarized in Table 3. A second review under the PRGF arrangement will be completed by April 2002, which will focus on the economic program for the second-year PRGF arrangement and progress in accelerating SOCB and SOE reforms.

18. To help strengthen program implementation, technical assistance will continue to be sought from the IMF in bank restructuring and supervision, tax policy and administration, and statistics. In particular, in the statistical system, we intend to take steps to address deficiencies identified by IMF staff, beginning in the national accounts area, and to make a timely decision on Vietnam's participation in the General Data Dissemination System.

19. We are committed to furthering policy transparency, building on recent progress. Additional information will be posted on the newly introduced website for the MoF, and websites for financial and economic information will be considered, including for the SBV. Publication of IMF staff reports for Vietnam will continue. In addition, in connection with the IMF's safeguards assessment for Vietnam, an external audit of the SBV's 2001 financial statements will be conducted by the state auditor for completion by June 2002. We plan to conduct this audit in accordance with international standards and to publish post-audit financial statements.

Attachments

Table 1 Vietnam: Medium-Term Macroeconomic Framework, 1999–2003

Table 2 Vietnam: Monetary Program, December 2000–June 2002

Table 3 Vietnam: Prior Actions for Completion of the First PRGF Review and Structural Benchmarks and Performance Criteria for First and Second PRGF Review

Annexes

Table 1. Vietnam: Medium-Term Macroeconomic Framework, 1999-2003 1/

	1999	2000	2001		2002		2003	
	Estimates		Proj.	Rev.	Proj.	Rev.	Proj.	Rev.
Real GDP (annual percentage change) 2/								
Official	4.8	6.7	7.5 3/	7.1	>7.0	>7.0	>7.0	>7.0
Fund staff	4.2	5.5	5.0	4.7	6.0	5.3	7.0	7.0
Inflation (end of period, annual percentage change)	-0.2	-0.6	5.0	2.0	4.0	4.0	3.5	3.5
Current account balance (including official transfers, in percent of GDP)	4.5	2.1	-0.3	1.7	-4.3	-1.6	-3.3	-2.9
Exports and imports (annual percentage change)								
Exports of goods 4/	23.2	25.2	7.0-16.0	5.8-10.7	12.0-16.0	4.0-12.0	12.0-16.0	12.0-16.0
Imports of goods	0.1	34.5	11.0	6.0	19.0	9.5	11.0	14.7
General government budget (in percent of GDP)								
Total revenue and grants	19.8	21.1	20.3	22.0	20.0	20.8	19.7	21.0
Total expenditure (excluding onlending) 5/	20.6	23.1	23.1	24.9	23.0	24.7	22.8	24.1
Overall fiscal balance (excluding onlending)	-0.8	-2.0	-2.7	-2.9	-3.0	-3.9	-3.1	-3.1
Gross official reserves (in weeks of next year's imports of goods and nonfactor services)	8.1	8.6	8.3	9.4	8.9	9.1	9.3	9.5

Sources: Vietnamese authorities; and Fund staff estimates and projections.

1/ Based on projections derived in cooperation with Fund staff, unless otherwise indicated.

2/ Differences between official and staff estimates and projections of real GDP growth reflect alternative methodologies used to estimate GDP and its components on an expenditure basis and recent changes in the external outlook. Under the PRGF-supported program, the Vietnamese authorities will seek technical assistance from the Fund on improving national income accounts.

3/ As approved by the National Assembly in October 2000.

4/ The bottom- and top-end of the range reflect staff and official projections, respectively.

5/ Includes current costs of structural reforms.

Table 2. Vietnam: Monetary Program, December 2000-June 2002 1/ 2/

	2000		2001							2002	
	December		March		June		Sept.	December		March	June
	Prog.	Rev.	Orig. Prog.	Est.	Orig. Prog.	Est.	Orig. Prog.	Orig. Prog.	Prog.	Program	
					(In trillions of dong)						
Net foreign assets	95.2	95.7	97.5	101.3	102.1	108.7	107.2	112.6	112.6	116.0	119.3
Foreign assets	112.2	112.7	114.5	118.5	119.5	126.5	124.6	130.5	130.5	134.0	137.5
Foreign liabilities	-17.0	-17.0	-17.0	-17.2	-17.4	-17.8	-17.4	-17.9	-17.9	-18.0	-18.2
Net domestic assets	127.7	127.2	136.0	137.1	144.0	140.2	152.0	161.0	162.1	172.2	182.4
Domestic credit	155.2	155.2	163.7	163.6	171.5	167.6	179.8	188.9	190.4	200.6	210.8
Net claims on government	-0.5	-0.5	1.0	-0.7	1.0	-4.5	1.5	2.0	2.0	2.8	3.5
Credit to the economy	155.7	155.7	162.7	164.3	170.5	172.1	178.3	186.9	188.4	197.9	207.3
Claims on state enterprises	69.9	69.9	72.0	73.1	74.1	75.1	76.2	78.3	79.0	81.6	84.1
Claims on other sectors	85.8	85.8	90.7	91.2	96.4	97.0	102.1	108.6	109.4	116.3	123.1
Other items, net	-27.6	-28.0	-27.7	-26.5	-27.5	-27.4	-27.8	-27.9	-28.4	-28.4	-28.4
Broad money	222.9	222.9	233.5	238.5	246.1	249.0	259.2	273.6	274.7	288.2	301.6
Dong liquidity	160.4	152.5	167.9	160.6	177.6	164.7	187.4	197.1	184.8	194.5	204.2
Foreign currency deposits	62.5	70.4	65.6	77.8	68.4	84.3	71.8	76.5	89.9	93.7	97.4
					(Annual percentage changes)						
Credit to the economy	38.1	38.1	34.1	35.4	28.2	29.4	26.8	20.0	21.0	20.4	20.4
Credit to state enterprises	28.7	28.7	24.4	26.3	15.9	17.4	17.5	12.0	13.0	11.6	12.0
Credit to other sectors	46.9	46.9	42.9	43.6	39.7	40.5	34.7	26.5	27.5	27.5	26.9
Broad money	39.0	39.0	31.6	34.3	30.7	32.3	30.9	22.8	23.2	20.8	21.2
Dong liquidity	37.6	30.8	31.9	26.2	31.8	22.2	34.7	22.9	21.2	21.1	24.0
Foreign currency deposits	42.5	60.5	30.8	55.1	28.0	57.6	21.9	22.4	27.7	20.3	15.6
					(Changes in percent since the beginning of the year)						
Credit to the economy	38.1	38.1	4.5	5.5	9.5	10.5	14.5	20.0	21.0	5.0	10.0
Credit to state enterprises	28.7	28.7	3.0	4.5	6.0	7.5	9.0	12.0	13.0	3.3	6.5
Credit to other sectors	46.9	46.9	5.7	6.3	12.4	13.1	19.0	26.5	27.5	6.3	12.5
Broad money	39.0	39.0	4.8	7.0	10.4	11.7	16.3	22.8	23.2	4.9	9.8
Dong liquidity	43.7	33.2	5.8	5.5	11.5	7.4	17.3	22.9	21.2	5.3	10.5
Foreign currency deposits	42.5	60.5	5.1	10.6	9.5	19.7	14.9	22.4	27.7	4.2	8.4
					(Quarterly percentage changes)						
Credit to the economy	10.7	10.7	4.5	5.5	4.8	4.8	4.6	4.8	...	5.0	4.8
Credit to state enterprises	7.8	7.8	3.0	4.5	2.9	2.8	2.8	2.8	...	3.3	3.1
Credit to other sectors	13.2	13.2	5.7	6.3	6.3	6.4	5.9	6.3	...	6.3	5.9
Broad money	12.5	12.5	4.8	7.0	5.4	4.4	5.3	5.6	...	4.9	4.7
Dong liquidity	15.0	6.6	5.8	5.5	5.4	1.8	5.2	4.9	...	5.3	5.0
Foreign currency deposits	6.1	19.5	5.1	10.6	4.2	8.3	4.9	6.5	...	4.2	4.0
					(Changes in trillions of dong since the beginning of the year, unless indicated otherwise)						
Memorandum items:											
Net domestic assets of the banking system 3/	28.5	28.0	8.3	10.0	16.3	13.6	24.3	33.3	34.9	10.1	20.3
Net credit to the government of the banking system	-3.4	-3.4	1.5	-0.2	1.5	-4.0	2.0	2.5	2.5	0.8	1.5
Credit to the state-owned enterprises from the banking system	15.6	15.6	2.1	3.2	4.2	5.2	6.3	8.4	9.1	2.6	5.1
Net official international reserves (in millions of U.S. dollars) 4/ 5/	139	98	65	-151	175	55	310	440	440	62	125

Sources: State Bank of Vietnam; and staff estimates and projections.

1/ Comprising the State Bank of Vietnam (SBV), six state-owned commercial banks, and 83 nonstate-owned credit institutions.
2/ At current exchange rates, unless indicated otherwise.
3/ At program monitoring exchange rates.
4/ Excludes foreign currency counterpart of government foreign currency deposits at the SBV.
5/ Excludes foreign currency deposits of DMBs at the SBV.

Table 3. Vietnam: Prior Actions for Completion of the First PRGF Review and Structural Benchmarks and Performance Criteria for the First and Second PRGF Review 1/

Policy Action/Conditions	Timing
A. Structural Benchmarks and Performance Criteria for the Second Disbursement (to be assessed during the First PRGF Review)	
1. Award contracts for Vietcombank (VCB) and Incombank (ICB) audits, subject to donor offering of funding.	Structural benchmark July 2001
2. Submit progress report on VCB and ICB audits in line with contracts for the audits.	Structural performance criterion September 2001
B. Prior Actions for the First PRGF Review	
Banking reform	
1. Government approval of the restructuring plans for ICB, Bank for Agriculture and Rural Development (BARD), and Bank for Investment and Development (BIDV) consistent with the overall state-owned commercial bank (SOCB) reform framework adopted in April 2001 under the PRGF.	
2. Agree, in consultation with the World Bank, on milestones for loan restructuring at the four large SOCBs.	
3. Issue State Bank of Vietnam (SBV) directive governing conditions for a phased recapitalization of the four large SOCBs, including the above milestones and operational targets.	
4. Government approval of the SOCB financial restructuring guidelines consistent with the principles set out in MEFP paragraph 11.	
State-owned enterprise (SOE) debt monitoring	
5. Issue a revised Ministry of Finance decision on the criteria for monitoring the 200 targeted large SOEs, which clarifies the quarterly reporting requirements and introduces sanctions against late reporting.	

1/ Based on October 2001 for the first PRGF review date and April 2002 for the second review.

Table 3. Vietnam: Prior Actions for Completion of the First PRGF Review and Structural Benchmarks and Performance Criteria for the First and Second PRGF Review (concluded)

	Policy Action/Conditions	Timing
C.	**Structural Benchmarks and Performance Criteria for the Third Disbursement** (to be assessed during the Second PRGF Review)	
	Banking reform	
1.	Amend Decision 284 to bring the criteria for loan classification by banks in accordance with international standards.	Structural performance criterion December 2001
2.	Make fully operational special monitoring unit to oversee implementation of SOCB reform under the interministerial committee for SOCB financial restructuring.	Structural benchmark December 2001
3.	Resolve a total of D 1.4 trillion in non-performing loans for the four large SOCBs (VCB, ICB, BARD, and BIDV) in accordance with the terms specified in the SBV directive with each bank.	Structural performance criterion March 2002
	State-owned enterprise reform	
4.	Equip the special monitoring unit in the National Steering Committee for Enterprise Reform and Development (NSCERD) with enforcement power to oversee implementation of SOE reform plan.	Structural benchmark December 2001
5.	Government approval of implementation guidelines on SOE debt resolution and safety funds for labor redundancies.	Structural benchmark December 2001
	Exchange system liberalization	
6.	Submit a recommendation to the National Assembly to eliminate the tax on profit remittances for foreign invested enterprises.	Structural benchmark March 2002

Table 4. Vietnam: Quantitative Performance Criteria and Benchmarks Under the First-Year PRGF Program Through June 2002 1/ 2/

	Stock at:	Maximum cumulative change from end-December 2000 to:							Stock at:	Maximum cumulative change from end-December 2001 to:	
	Dec. 31	March 31		June 30		Sept. 30	Dec. 31		Dec. 31	March 31	June 30
	2000	2001								2002	
	Actual	Program	Actual	Program	Actual	Program		Revised program		Program	
	(In trillions of dong)										
1. Net domestic assets of the banking system 3/	127.2	8.3	10.0	16.3	13.6	24.3	33.3	34.9	162.1	10.1	20.3
2. Net credit to the government of the banking system 4/	-0.5	1.5	-0.2	1.5	-4.0	2.0	2.5	2.5	2.0	0.8	1.5
3. Credit to the state-owned enterprises (SOEs) from the banking system	69.9	2.1	3.2	4.2	5.2	6.3	8.4	9.1	79.0	2.6	5.1
4. Credit from the banking system and from the budget and budget support to the 200 targeted large SOEs	35.3 5/	0.6	1.6 5/	1.2	-1.0 5/	1.8	2.4	2.4	37.7	0.6	1.2
	(In millions of U.S. dollars)										
5. Contracting or guaranteeing of nonconcessional external debt by the government											
Up to one-year maturity	0	0	0	0	0	0	0	0	0	0	0
Medium and long-term debt	598	100	0	220	40	420	550	550	...	100	220
Of which: 1-5 years' maturity	...	0	0	0	0	150	150	150	...	0	0
6. External payments arrears 6/	57.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	57.3	0.0	0.0
7. Net official international reserves 7/	2,191	65	-141	175	107	310	440	440	2,631	62	125

Sources: Vietnamese authorities; and staff estimates and projections.

1/ The measurement and reporting requirements of quantitative benchmarks and performance criteria are described in the Annex III (Technical Memorandum of Understanding) of the Supplementary Memorandum on Economic and Financial Policies of the Government of Vietnam for September 2001-June 2002.

2/ Performance criteria for end-June and end-December 2001; and quantitative benchmarks otherwise, except for (i) credit from the banking system and from the budget and budget support to 200 targeted large SOEs, which is a quantitative benchmark for end-June 2001 and end-December 2001; and (ii) external payments arrears, which is a continuous performance criterion through June 2002.

3/ At program monitoring exchange rates.

4/ Excludes non-negotiable government bonds for state-owned commercial banks' reform.

5/ Ministry of Finance estimates; excludes Petroleum and Gas Construction Company, Petroleum and Gas Services and Export/Import Company, and Thai Nguyen Construction Company, which have been liquidated.

6/ Represent outstanding arrears to Algeria; a rescheduling agreement is currently under discussion between the Vietnamese and Algerian authorities.

7/ Actual performance measured on the basis of using program monitoring exchange rates for non-U.S. dollar-denominated foreign assets and liabilities of the State Bank of Vietnam, as described in Annex III.

Vietnam: Timetable for Removal of Quantitative Restrictions

Item or Group	Target under PRGF	Revised Date
Clinker and cement		
Clinker	December 31, 2001	May 1, 2001
Cement	December 31, 2002	No change
Construction white glass	December 31, 2002	December 31, 2001
Granite and ceramic tiles	December 31, 2002	May 1, 2001
Paper	2001	May 1, 2001
Remaining steel products	December 31, 2002	December 31, 2001
Vegetable oil	January 1, 2003	December 31, 2001
Alcohol	Not scheduled for removal	May 1, 2001
Motorcycles	Not scheduled for removal	December 31, 2002
Passenger vehicles		
10-16 seats	Not scheduled for removal	May 1, 2001
Up to 9 seats	Not scheduled for removal	December 31, 2002

Vietnam—Milestones for State-Owned Commercial Banks in 2002

The "Milestones for SOCBs" listed below are the minimum conditions in the context of the PRGF review, as agreed by the SBV with the staffs of the International Monetary Fund and the World Bank, for the purpose of recapitalization of the four large state-owned commercial banks (SOCBs). Bank-specific milestones are expected to be developed consistent with these overall milestones and issued as a directive by the SBV.

Milestones for end-March 2002:

- Establish credit risk management and internal audit committees (where they do not already exist) and submit to the SBV for review the manual of procedures for those committees, revised to incorporate improvements relevant to each SOCB's recent experience.
- Resolve at least VND 1.4 trillion of potentially recoverable NPLs of the four large SOCBs. Resolution targets for individual SOCBs will be agreed by the SBV and SOCBs and communicated to the World Bank and the International Monetary Fund.

Milestones for end-June 2002:

- Agree audit qualifications from year 2000 audit that are to be eliminated by year-end and sign contracts for external audits for year 2001.
- Agree on September 2002 and March 2003 targets for loan resolution.

Milestones for end-September 2002:

- Pass a special SBV examination of credit file documentation. (Examples of features to monitor are: inclusion of appropriate signatures on credit documents; centralization at headquarters of credit extensions throughout the branch network to a single borrower; existence of a cash flow analysis of borrowers, even for collateralized loans; existence of written government guarantees for directed lending; etc.)
- Resolve an amount of potentially recoverable NPLs that will be determined on the basis of revised Decisions 284 and 488.

Milestones for end-December 2002:

- Complete year 2001 external audit, eliminating qualifications agreed in June.

Future milestones will be specified on the basis of experience with the implementation of earlier milestones and developments in SOCB conditions. The SOCBs will continuously improve performance against these milestones over three years, in addition to meeting these first-year milestones. SOCBs will also phase in provisioning over three years, subject to availability of financing, following revised Decisions 284 and 488.

Technical Notes and Definitions Related to the Milestones

Potentially recoverable loans are defined as: all collateralized loans + commercial noncollateralized loans to active borrowers + directed loans to active borrowers. Potentially recoverable loans refer to NPLs as of an end-2000 base date.

Loans are considered "resolved" under any of the following conditions:

1. For all collateralized loans – actions are taken to gain possession of collateral (e.g., a claim is made in court), *and if possession is achieved,* actions are taken to recover value (e.g., the collateral asset is successfully sold or put at auction, even if not successfully bid, or a notice of sale offer is made or a different kind of marketable asset for which the collateral asset was previously swapped is successfully sold), or

2. For collateralized loans to active borrowers and noncollateralized loans to active non-SOE borrowers – the loan is restructured, if the active borrower negotiates with the SOCB a restructuring of business operations to improve debt-servicing capability, or

3. For noncollateralized loans to active SOEs—the loan is restructured if an approved SOE restructuring plan with appropriate conditions exists or provisions are made against the loan after an active SOE is closed, or

4. For all loans—provisions are made against the loan, if they are matched by "independent" capital injections, i.e., sources other than the government, the IMF, or the World Bank.

VIETNAM—TECHNICAL MEMORANDUM OF UNDERSTANDING
November 1, 2001

1. This memorandum sets out (i) the definitions of quantitative performance criteria and benchmarks for the first-year PRGF-supported program (Table 4), and (ii) related reporting requirements to the Fund's Asia and Pacific Department (Table 5).

I. DEFINITIONS[1]

Item 1: Net domestic assets (NDA) of the banking system

- Defined as total liquidity minus net foreign assets of the banking system.
- Total liquidity is defined as the sum of dong liquidity (currency outside the banks, deposits, and deposit substitutes) and foreign currency deposits with the banking system; deposits are defined to exclude government deposits.
- Net foreign assets of the of the banking system are the sum of net foreign assets of the SBV and net foreign assets of the deposit money banks (DMBs).
- Net foreign assets of the DMBs are defined as foreign assets minus foreign liabilities. Foreign assets comprise gold, foreign currency holdings, and claims on nonresidents. Foreign liabilities comprise all liabilities to nonresidents.

Item 2: Net claims on the government of the banking system

- Defined as the claims on government minus deposits of the government with the banking system.
- Claims comprise advances to the state budget, investment in government securities, and any other forms of credit to the state budget.
- Government securities will be measured at the transaction price. Repayments of government securities will exclude interest payments, either as coupon interest or the discount.

[1] These definitions, except Items 4, 5, and 6, adhere to the existing classification schemes used for the monetary derivation tables of the State Bank of Vietnam (SBV) covering 89 credit institutions and the SBV, and the associated monetary survey tables. More specifically, the banking system is defined as the SBV and the deposit money banks (DMBs), which consist of six state-owned commercial banks (SOCBs), 46 joint stock banks, 4 joint venture banks, 26 foreign bank branches, 6 finance companies, and the Central People's Credit Fund.

- Government onlending funds financed by ODA are excluded from government deposits.

Item 3: Credit to the state-owned enterprises from the banking system

- Defined as the sum of all claims on the state-owned enterprises (SOEs) by the banking system.

- SOEs are defined as wholly state-owned enterprises.

Item 4: Credit from the banking system and from the budget and budget support to the 200 targeted large SOEs

- Credit from the banking system will be derived and verified from Report Form 1 (Report on Debt Situation of the Enterprise) of the Ministry of Finance (MoF) *Decision No. 47/2001/QD/BTC on Promulgating Criteria to Monitor State-Owned Enterprises with Large Debts* (issued on May 25, 2001 and amended on September 21, 2001).

- Credit from the budget and budget support will also be derived and verified from Report Form 1.

- The list of targeted large SOEs is given in Table 6.

Item 5: Contracting or guaranteeing of nonconcessional external debt by the government

- Defined as the sum of all new foreign currency loans or other external debt to nonresidents contracted or guaranteed by the central government (including the SBV), that have a grant element of less than 35 percent of the overall value of the loan's original principal. Local governments and agencies cannot contract external debt, and SOEs cannot guarantee such debt.

- This performance criterion applies not only to debt as defined below, but also to commitments contracted or guaranteed for which value has not been received. For the purpose of this memorandum, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this memorandum, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

- The grant element is to be calculated by using the currency-specific discount rates reported by the OECD as Commercial Interest Reference Rates (CIRR) as of December 31, 2000; for maturities of less than 15 years, the grant element will be calculated based on six-month averages of the commercial interest rates, and for maturities of 15 years or longer, the grant element will be calculated based on 10-year averages. Maturity will be determined on the basis of the original loan contract.

- For maturities of up to one year, the ceiling will apply to the amount of the stock of foreign currency loans or other external debt to nonresidents contracted or guaranteed by the government or the SOCBs.

- Excluded from the limits are changes in indebtedness resulting from rescheduling operations (including the deferral of interest on commercial debt) and normal import related credits, and credits extended by the IMF.

- Debt falling within the limit of this definition shall be valued in U.S. dollars at the bilateral market exchange rate prevailing at the time the contract or guarantee becomes effective.

Item 6: External payments arrears

- Defined as the stock of overdue payments (interest and principal payments) on short-term debt in convertible currencies with an original maturity of up to and including one year (spot, money market, letters of credit, and others) and medium-and long-term debt contracted or guaranteed by the government (including the SBV).

- The limit excludes those overdue payments that relate to debts which are subject to rescheduling or a stock-of-debt operation.

- As of end-December 2000, there were no reported external arrears, except for arrears totaling US$57.3 million with Algeria currently under negotiation.

Item 7: Net official international reserves (NIR)

- Defined as foreign assets minus foreign liabilities of the SBV, expressed in U.S. dollars and valued at the program monitoring exchange rates (see Section II).

- Foreign assets comprise gold, foreign currency holdings, and claims on nonresidents. As such, these assets must be readily available, i.e. sellable at any time and free of any pledges or encumbrances, and directly and exclusively controlled by the SBV. These assets will exclude holdings of nonconvertible currencies, claims on nonresident financial institutions denominated in nonconvertible currencies, holdings of foreign exchange of government ministries, the foreign currency deposits of deposit money banks held at the SBV, assets to be resold under a swap arrangement or forward contract, and such other claims that are not readily available and/or are encumbered.

- Foreign liabilities are liabilities to nonresidents contracted by the SBV, including deposits of foreign governments, foreign central banks, foreign DMBs, and international organizations, irrespective of their maturity. They also include IMF purchases and disbursements.

II. Program Monitoring Exchange Rates

2. Foreign assets and liabilities and all other elements of the items defined above that are denominated in foreign currency will be valued at the program monitoring exchange rates, unless specified otherwise.

- Holdings in gold will be valued at Vietnamese dong (VND) 480,000 per Vietnamese chi (equivalent to 3.75 grams).

- Assets and liabilities denominated in SDRs, including the SDR value of gold holdings and assets and liabilities resulting from transactions with the IMF will be converted at the rate of US$1.302 per SDR.

- Assets and liabilities denominated in currencies other than the U.S. dollar will be converted into U.S. dollars at the market rates of the respective currencies prevailing on December 29, 2000, as published in *International Financial Statistics* (IFS).

- The U.S. dollar value of assets and liabilities will be converted into Vietnamese dong at the official rate of the SBV on December 29, 2000, which was VND 14,501 per U.S. dollar.

III. Performance Criteria and Benchmarks

3. **Performance criteria** include Items 1 to 3 and 5 to 7 as defined above. For external payments arrears (Item 6), the performance criterion will be measured on a continuous basis throughout 2001 and first half of 2002. The other performance criteria will be measured on the last day of December 2001. **Quantitative benchmarks** include Items 1 to 5 and 7 as defined above. They will be measured on the last days of September 2001, as well as March and June 2002.

IV. Monitoring and Reporting Requirements

4. For the purposes of program monitoring, the following information, including any revisions to historical data, will be provided by the SBV, unless specified otherwise, to the Asia and Pacific Department of the Fund, through the office of the Senior Resident Representative of the IMF in Vietnam, as set out in Table 5.

Attachments

Table 5. Vietnam: Monitoring and Reporting Requirements

Table 6. Vietnam: List of 200 Large Debt State-Owned Enterprises in the Debt Monitoring System Under the First-Year PRGF-Supported Program

Table 5. Vietnam: Monitoring and Reporting Requirements

Item	Reporting Requirement	Periodicity
1. Net domestic assets (NDA) of the banking system. 2. Net credit to the government from the banking system.	In addition to data on the listed items and their components, data on amounts of external nonproject budget support (in U.S. dollars), write-offs of non-performing loans (NPLs) at the state-owned commercial banks (SOCBs), cost of SOCB recapitalization incurred by the government, and credit to the government from the nonbank public.	Monthly within six weeks of the end of each month.
3. Credit to the state-owned enterprises (SOEs) from the banking system.		Quarterly within eight weeks of the end of each quarter.
4. Credit from the banking system and from the budget and budget support to the 200 targeted large SOEs.	Enterprise-by-enterprise data on credit from the banking system and from the budget and budget support as compiled from Report Form 1 (Report on Debt Situation of the Enterprise). As supporting material, enterprise-by-enterprise data on tax debt and other obligations of enterprises to the state budget (compiled from Report Form 2) and debts of enterprises to bank and credit institutions (compiled from Report Form 3) will also be reported.	Quarterly within eight weeks of the end of each quarter.
5. Nonconcessional publicly contracted or guaranteed foreign currency loans or other external debt to nonresidents	A loan-by-loan summary of all new concessional and nonconcessional loans contracted or guaranteed by the government (including the SBV), with amounts and terms (i.e. amount borrowed and the terms of the loan, including the length of maturity, schedule of payments, rate of interest, currency of denomination, and conditions for government guarantee).	Quarterly within four weeks of the end of each quarter.
6. External payments arrears.	An accounting of nonrescheduable external arrears (on interest and principal payments), if any, by creditor countries. This accounting includes, separately, arrears owed by the government (including the SBV and on government guaranteed foreign currency loans), as well as a breakdown of arrears owed to Paris Club creditors, non-Paris Club creditors, and other creditors. In addition, data on other arrears, which are rescheduable.	Quarterly within four weeks of the end of each quarter.
7. Net official international reserves (NIR).	Two data series, one in U.S. dollars based on current bilateral exchange rates, one in U.S. dollars based on the program monitoring exchange rates. Also in U.S. dollars based on current bilateral exchange rates, gross official international reserves broken down as gold, cash and deposits, assets held against swap arrangements, other official foreign assets, and deposits in foreign currency of deposit money banks held at the SBV.	Bi-weekly within ten days of the end of two week period.

Table 6. Vietnam: List of 200 Large Debt State-Owned Enterprises in the Debt Monitoring System Under First-Year PRGF-Supported Program
(Báo cáo 200 DNNN có số nợ phải trả lớn)

Number	Tên doanh nghiệp 1/	Name
1	Công ty PETEC	Petec Investment, Technique, and Trading Co.
2	Công ty XNK dịch vụ thương mại	Import/Export and Trading Services Co.
3	Công ty thực phẩm miền trung	Foodstuff Co. in Central
4	Công ty thực phẩm miền bắc	Northern Foodstuff Co.
5	Cty XNK Ngũ Cốc	Cereal Import/Export Co.
6	Cty Vật tư bảo vệ thực vật 1	Plant Protection and Material Co. 1
7	Cty Đường Quảng Ngãi	Quang Ngai Sugar
8	Công ty phát triển nhà và đô thị	Housing and Urban Development Co.
9	Công ty XD cấp thoát nước số 2	Water Supply/ Drainage and Construction Co. II
10	Công ty xây dựng dầu khí	Petroleum and Gas Construction Co.
11	VP TCTy XD Thăng Long	Thang Long Bridge Construction General Corp. (head office)
12	CTy Tracimexco	Waterway Transportation Export/Import Co. (TRACIMEXCO)
13	Nhà xuất bản Giáo dục	Education Publishing House
14	Cty phát triển đầu tư công nghệFPT	FPT Co.
15	Bảo Minh	Bao Minh Insurance
16	Vinare	Vinare
17	Cty đầu tư phát triển GTVT	Transport Development Investment Co.
18	VP Tcty xây dựng CTGT 6	No. 6 Transport Work Construction Corp. (Head Office)
19	Văn phòng TCT Dầu khí	Petroleum and Gas General Corp. (head office)
20	Cty dịch vụ kỹ thuật dầu khí	Petroleum and Gas Technical Services Co.
21	Cty thiết kế và xây dựng dầu khí	Petroleum and Gas Design and Construction Co.
22	Công ty thương mại dầu khí	Petroleum and Gas Trading Co.
23	Cty thép thái nguyên	Thai Nguyen Steel and Iron Co.
24	Cty thép miền nam	Southern Steel Co.
25	Công ty dây cáp điện VN	Vietnam Power Cables and Wires Co.
26	CTy tơ việt ý Lâm đồng	Vietnamese-Italian Silk Co.
27	Công ty vật tư Hà Nội	Hanoi Material and Equipment Co.
28	Cty than Uôngbí	Uong Bi Coal Co.
29	Mỏ than Dương huy	Duong Huy Coal Mine
30	Cty than Nội địa	Domestic Coal Co.
31	Cty than Quảng ninh	Quang Ninh Coal Co.
32	Mỏ than Hà tu	Ha Tu Coal Mine
33	Xn Tuyển than hòn gai	Hon Gai Coal Selection Enterprise
34	Xn tuyển than Cửa ông	Cua Ong Coal Selection Co.
35	Công ty vật tư vật tải xếp dỡ	Transport Equipment and Loading/Unloading Co.
36	Công ty hoá chất mỏ	Mine Chemicals Co.
37	Công ty kỹ nghệ TP VN	Vietnam Foodstuff Technology Co.
38	Cty dệt hà nội	Ha Noi Textile Co.
39	Cty dệt nam định	Nam Dinh Textile Co.
40	Cty dệt 8/3	March 8 Textile Co.
41	cty dệt Huế	Hue Textile Co.
42	Cty dệt thành công	Thanh Cong Textile Co.
43	Cty dệt Việt thắng	Viet Thang Textile Co.
44	Cty dệt thắng lợi	Thang Loi Textile Co.
45	Cty dệt phong phú	Phong Phu Textile Co.
46	Cty dệt nha trang	Nha Trang Textile Co.
47	Công ty may Việt Tiến	Viet Tien Garment Co.
48	Cty bông Việt nam	Vietnam Cotton Co.
49	NM Thuốc lá Sài gòn	Sai Gon Tobacco Factory
50	NM Thuốc lá Vĩnh hội	Vinh Hoi Tobacco Factory
51	NM thuốc lá Thăng Long	Thang Long Tobacco Factory
52	Cty XNK Thuốc lá	Tobacco Import/Export Co.
53	Xn in bao bì& phụ liệu thuốc lá	Tobacco Material and Package Printing Enterprise
54	Cty NL Thuốc lá Nam	South Tobacco Raw Material Co.
55	VP TCT Giấy	Vietnam Paper General Corp. (head office)
56	Cty giấy Bãi Bằng	Bai Bang Paper Co.
57	Cty giấy Đồng nai	Dong Nai Paper Co.
58	Cty giấy Tân mai	Tan Mai Paper Co.
59	Cty NL giấy vĩnh phú	Vinh Phu Paper Raw Material Co.
60	Cty phân đạm và hoá chất Hà bắc	Ha Bac Chemical and Nitrogenous Fertilizer Co.
61	Công ty phân bón miền nam	Southern Fertilizer Co.
62	Cty thuốc sát trùng VN	Vietnam Germicide Co.
63	Cty sơn chất dẻo	Plastic Paint Co.
64	Cty Cao su sao vàng	Sao Vang Rubber Co.
65	Cty Bia Sài gòn	Saigon Beer Co.
66	Cty Bia HN	Ha Noi Beer Co.

1/ Name of enterprise in Vietnamese.

Table 6. Vietnam: List of 200 Large Debt State-Owned Enterprises in the Debt Monitoring System Under First-Year PRGF-Supported Program (continued)
(Báo cáo 200 DNNN có số nợ phải trả lớn)

Number	Tên doanh nghiệp	Name
67	Cty Nhựa hưng yên	Hung Yen Plastic Co.
68	Công ty giầy Hiệp Hưng	Hiep Hung Footwear Co.
69	Cty xây lắp điện II	Power Construction and Installation Co. II
70	Cty xây lắp điện III	Power Construction and Installation Co. III
71	Công ty xây lắp điện 4	Power Construction and Installation No. IV
72	Cty xây lắp SX CN	Industrial Construction, Installation, and Production Co.
73	Cty sữa	Vietnam Milk Co.
74	Cty dầu thực vật và hương liệu MP	Vietnam Vegetable Oil, Cosmetic, and Perfume Materials
75	Cty DVXNK cà phê II	Coffee Export/Import and Services No. II
76	VP Tcty Cà phê VN	Vietnam Coffee Gen. Corp. (Head Office)
77	Cty Cao su Đồng Nai	Dong Nai Rubber Co.
78	VP TCTY Lương thực m.Bắc	Northern Foods General Corp. (head office)
79	Cty lương thực TPHCM	HCMC Foods Co.
80	Cty Lương thực Tiền Giang	Tien Giang Foods Co.
81	Cty Lương thực Cần thơ	Can Tho Foods Co.
82	Cty Lương thực TP Sóc trăng	Soc Trang Foods and Foodstuff Co.
83	Cty XNK LT VTNN Đồng Tháp	Dong Thap Agricultural Material and Foods Export/Import Co.
84	Công ty lương thực An Giang	An Giang Foods Co.
85	CTy Lương thực &CNTP	Foodstuff and Foodstuff Industry Co.
86	VP TCTY Lương thực m.Nam	Southern Foods General Corp. (head office)
87	Cty Đường-Rượu-Bia Việt Trì	Viet Tri Sugar, Wine, and Beer Co.
88	Cty Đường Bình Dương	Binh Duong Sugar Co.
89	Cty Đường Biên Hoà	Bien Hoa Sugar Co.
90	Cty MĐ Tuy Hoà	Tuy Hoa Sugar Co.
91	VP TCTY XDNN &PTNT	Agricultural Construction and Rural Development (head office)
92	Cty XNK nông sản và TP HN	Hanoi Agricultural Products Export/Import Co.
93	VP TCTY Chè	Vietnam Tea General Corp. (head office)
94	VP TCTY Dâu tằm tơ	Vietnam Mulberry General Corp. (head office)
95	VP TCTY Vật tư NN	Agricultural Material/Equipment General Corp. (head office)
96	Công ty xi măng Hải Phòng	Hai Phong Cement Co.
97	Công ty xi măng Hoàng Thạch	Hoang Thach Cement Co.
98	Công ty xi măng Bỉm Sơn	Bim Son Cement Co.
99	Công ty Xi măng Hà tiên 1	Ha Tien Cement Co. No. I
100	Công ty xi măng Bút sơn	But Son Cement Co.
101	Công ty đầu tư và phát triển XD	Investment and Development Co. (Hanoi Construction Corp.)
102	Công ty đầu tư và phát triển đô thị	Urban Investment and Development Co.
103	Công ty cây dựng số 8	Construction Co. No. 8
104	Công ty xây dựng số 14	Construction Co. No. 14
105	VP Tcty xây dựng số 1	Construction General Corp. I (head office)
106	VP Tcty xây dựng Sông Đà	Song Da Construction Corp. (head office)
107	Công ty lắp máy và XD số 45.1	Machinery Installation and Construction No. 45.1
108	VP TCTy lắp máy Việt nam	Vietnam Machine Installation General Corp. (head office)
109	VPTCTy XD phát triển hạ tầng	Infrastructure Development Gen. Corp. (Head Office)
110	Công ty sứ Thanh trì	Thanh Tri Ceramic Co.
111	Cty gạch ốp lát Hà Nội	Ha Noi Ceramic Tile Co.
112	Công ty Thạch Bàn	Thach Ban Co.
113	Tcty thuỷ tinh và gốm XD	Construction Glass and Porcelain Co.
114	VP TCTy VINACONEX	VINACONEX General Corp. (head office)
115	CTy vận tải biển VN	Vietnam Marine Transport Co.
116	CTy vận tải dầu khí VN	Vietnam Petroleum and Transportation Co.
117	CTy VTải và thuê tàu biển VN	Vietnam Ship Lease and Transport Co.
118	VP TCTy Hàng hải VN	Vietnam Shipping Liners Co. (head office)
119	Cảng Sài gòn	Sai Gon Port
120	VP TCTy CN tàu thuỷ VN	Vietnam Shipping Industry Gen. Corp. (Head Office)
121	VP TCTy XDCTGT1	Transport Work Construction General Corp. I (head office)
122	CTy cầu 12	Bridge Co. No. 12
123	CTy cầu 14	Bridge Co. No. 14
124	CTy XDCT 507	Work Construction Co. No. 507
125	Cty nạo vét đường thuỷ 2	Waterway Dredging Co. No 2
126	Công ty công trình 86	Construction Work No. 86 (Waterway Construction Corp.)
127	Cty XNK Thuỷ sản TPHCM	HCMC Aquatic Product Export/Import Co.
128	Cty XNK Thuỷ đặc sản	Special Aquatic Products Export/Import Co.
129	Cty XNK Thuỷ sản m.Trung	Central Aquatic Products Export/Import Co.
130	VP TCTY Hải sản biển Đông	Bien Dong Sea Products General Corp. (head office)
131	Công ty dược phẩm TW2	Central Pharmacy Co. II
132	Công ty XNK y tế II	Medical Export/Import Co. II
133	Công ty sản suất thiết bị điện Đ.Anh	Dong Anh Electric Equipment Production Co.
134	Công ty tư vấn XD điện 1	Power Construction and Consultation No. 1

Table 6. Vietnam: List of 200 Large Debt State-Owned Enterprises in the Debt Monitoring System Under First-Year PRGF-Supported Program (concluded)
(Báo cáo 200 DNNN có số nợ phải trả lớn)

Number	Tên doanh nghiệp	Name
135	Cty dược phẩm thiết bị y tế HN	Hanoi Medical Equipment and Pharmacy Co.
136	Cty vật tư tổng hợp Hà Anh	Ha Anh General Material and Equipment Co.
137	Công ty thương mại dịch vụ Hachimex	Hachimex Trading Co.
138	Công ty thương mại dịch vụ XNK Hải phòng	Hai Phong Export/Import, Services and Trading Co.
139	Cty Quản lý khai thác công trình thuỷ lợi Xuân thuỷ Nam định	Xuan Thuy Nam Dinh Irrigation Work Exploitation and Mgmt. Co.
140	Công ty xây dựng Thái nguyên	Thai Nguyen Construction Co.
141	Công ty Mía đường Sơn la	Son La Sugar Co.
142	Công ty Thuỷ nông Sông Chu	Song Chu Irrigation Co.
143	Công ty Xuất nhập khẩu Đà Nẵng	Da Nang Export/Import Co.
144	Công ty Hữu Nghị	Huu Nghi Co.
145	Công ty Ciment Hải Vân	Hai Van Cement Co.
146	Cty Khai thác công trình thuỷ lợi Quảng ngãi	Quang Ngai Irrigation Work Exploitation Co.
147	Công ty đường Bình định	Binh Dinh Sugar Co.
148	Công ty Thương mại tổng hợp Phú yên	Phu Yen General Trading Co.
149	Công ty sản xuất kinh doanh XNK Phú yên	Phu Yen Export/Import, Trading and Production Co.
150	Công ty Đường Khánh Hòa	Khanh Hoa Sugar Co,
151	Công ty Yến sào	Bird Nest Co.
152	Nhà máy Dệt Tân Tiến	Tan Tien Textile Factory
153	Xí nghiệp Liên hiệp thuốc lá Khánh Hòa	Khanh Hoa Tobacco Enterprise
154	Công ty Mía Đường Kon tum	Kontum Sugar Co.
155	Công ty Đầu tư XNK Đắk Lắk	Daklak Investment and Export/Import Co.
156	Công ty Mía đường Đăklăk	Daklak Sugar Co.
157	Công ty Cà phê Phước An	Phuoc An Coffee Co.
158	Công ty Xuất nhập khẩu 2-9	September 2 Export/Import Co.
159	Công ty XNK T. hợp và ĐT TPHCM (IMEXCO)	HCMC Investment and General Export/Import Co.
160	Công ty phát triển công nghiệp Tân thuận	Tan Thuan Industrial Development Co.
161	Công ty sản xuất kinh doanh bao bì LIKSIN	LIKSN Printing Co. (HCMC)
162	Công ty Dược Thành Phố (SAPHARCO)	HCMC Pharmacy Co. (SAPHARCO)
163	Công ty Quản lý và Phát triển nhà Quận 4	Real Estate Management and Development (District 4, HCMC)
164	Công ty XNK Và Đầu Tư Chợ Lớn	Cho Lon Investment and Export/Import Co.
165	Công ty XNK Phú Thọ	Phu Tho Export/Import Co.
166	Công ty XNK Tân bình	Tan Binh Export/Import Co.
167	Công ty Đầu tư & Dịch vụ TP.HCM	HCMC Investment and Service Co.
168	Công ty Thanh Niên Xung Phong Tp. HCM	HCMC Young Volunteer Co.
169	Công ty PT và Kinh Doanh Nhà TPHCM	HCMC Real Estate Development and Trading Co.
170	Công ty phát triển Nhà Bình Thạnh	Binh Thanh Real Estate Development Co.
171	Công ty kinh doanh thuỷ hải sản	Aquatic and Sea Product Trading Co.
172	Công ty xuất nhập khẩu và đầu tư quận 1 (Sunimex)	Sunimex Co.
173	Công ty dịch vụ tổng hợp Sài gòn	Sai Gon General Services Co.
174	Công ty Du lịch TP HCM	HCMC Tourism Co.
175	Công Ty Mía Đường Tây ninh	Tay Ninh Sugar Co.
176	Công ty TM XNK Thành Lễ	Thanh Le Trading and Import/Export Co.
177	Cty thương mại đầu tư & phát triển Bình Dương(BECAMEX)	BECAMEX Co.
178	Cty Mía đường Trị an	Tri An Sugar Co.
179	Công ty Xuất Nhập Khẩu và đầu tư Bình thuận	Binh Thuan Export/Import and Investment Co.
180	Nhà Máy Đường Bình thuận	Binh Thuan Sugar Factory
181	Công Ty đầu tư xây dựng và TM Vũng tàu	Vung Tau Construction, Investment, and Trading Co.
182	Công ty XNK Dịch Vụ dầu khí	Petroleum and Gas Services and Export/Import Co.
183	Công ty XNK Nông Sản & tiểu thủ CN	Handicraft and Agricultural Product Export/Import Co.
184	Công ty xây lắp Bà rịa-Vũng tàu	Vung Tau Construction and Installation Co.
185	Công ty xây dựng và phát triển đô thị Vũng tầu	Vung Tau Urban Development and Construction Co.
186	Công Ty Du lịch Quốc Tế Bà rịa-Vũng Tàu	Baria-Vung Tau International Tourism Co.
187	Công ty XNK tổng hợp Long an	Long An General Export/Import Co.
188	Công Ty Thương Mại Dầu Khí Đồng Tháp	Dong Thap Petroleum and Gas Trading Co.
189	Cty XNK nông sản thực phẩm An giang	An Giang Agricultural Product and Foods/Foodstuff Exp./Imp. Co.
190	Công Ty Xổ Số Kiến Thiết Tiền giang	Tien Giang Lottery Co.
191	Công Ty Dược Và VT Y Tế	Medical Material & Equipment and Pharmacy Co.
192	Công ty đường Bến Tre	Ben Tre Sugar Co.
193	Công ty Thương mại Kiên Giang	Kien Giang Trading Co.
194	Công ty Mía đường Kiên giang	Kien Giang Sugar Co.
195	Nông trường Sông Hậu	Song Hau Farm
196	Công Ty VT Kỹ Thuật Nông Nghiệp Cần Thơ	Can Tho Agricultural Material and Equipment and Technique Co.
197	Cty SXKD Vật liệu xây dựng	Construction Material Production and Trading Co.
198	Công ty Mía đường Sóc trăng	Soc Trang Sugar Co.
199	Cty Bia Sóc trăng	Soc Trang Beer Co.
200	Cty Công trình thủy lợi Sóc Trăng	Soc Trang Irrigation Work Co.

Source: Ministry of Finance, Corporate Finance Department.

Statement by the IMF Staff Representative
November 21, 2001

1. This statement provides information on developments since the circulation of the staff report (EBS/01/184, 11/7/01). These developments do not change the thrust of the staff appraisal.

2. Preliminary data for the first nine months of 2001 suggest that budget execution continues to be prudent and somewhat less expansionary than programmed, thus allowing scope for increased capital spending through year-end to help support economic activity.

3. Provisional data now available for five out of the seven quantitative benchmarks for end-September suggest that macroeconomic performance continues to be broadly on track. All benchmarks appear to have been observed, except that on net international reserves (NIR), which was missed marginally. However, with the release of the first tranche (US$100 million) of the Bank's Poverty Reduction Support Credit in October, gross official reserves reached US$3.8 billion (9¾ weeks of prospective imports) on November 9 (above the end-year target of US$3.6 billion), suggesting that NIR is now running above its programmed path. The benchmark on net domestic assets was met, mainly through the less-than-programmed use of bank credit by the budget. Overall credit growth slowed further from 29 percent through end-June to 28 percent at end-September, slightly above the rate programmed.

4. The staff is satisfied that all prior actions envisaged in Table 6 of the staff report have been implemented. In particular, with respect to the two prior actions that remained to be verified when the staff report was issued:

- The SBV issued a directive on October 30 for the four large state-owned commercial banks (SOCBs) that specifies the conditions for a phased recapitalization of these banks, including the milestones and operational targets as detailed in the Supplementary Memorandum on Economic and Financial Policies (MEFP). Relative to the aggregate milestones set out in the Supplementary MEFP, the target set for each bank's NPL resolution is more ambitious than that implied by the minimum aggregate target, and each bank's timetable for achieving some of the milestones is being advanced by about three months. In monitoring SOCBs' compliance with this directive, the authorities have confirmed that they intend to follow the definition for debt resolution set out in Annex II of the Supplementary MEFP.

- Through Prime Ministerial Decisions 149 and 150 issued on October 5 and Decision 1390 issued on November 7, the government approved financial restructuring guidelines for the SOCBs that were broadly consistent with the principles set out in paragraph 11 of the Supplementary MEFP, with one exception. Instead of providing for two debt recovery units (an asset management company to deal with collateralized debt and a loan workout unit to handle noncollateralized debt), a single, debt and asset management company will be established within each bank to deal with both types of NPLs. This single-unit approach is judged to be acceptable in light of the

- over -

limited capacity of SOCBs. Under the guidelines, NPL resolution is expected to be linked to improvements in the financial soundness of state-owned enterprises, and a tight oversight is envisaged by the newly established Steering Committee for Financial Restructuring of Commercial Banks that will report directly to the Prime Minister.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 02/1
FOR IMMEDIATE RELEASE
January 04, 2002

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2001 Article IV Consultation with Vietnam

On November 21, 2001, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Vietnam.[1]

Background

Economic performance has been positive so far in 2001, against the backdrop of a three-year Poverty Reduction and Growth Facility (PRGF) arrangement for SDR 290 million approved by the Executive Board of the Fund on April 13, 2001. The PRGF supported program is aimed at restoring Vietnam's growth closer to potential and reducing poverty, through boosting private investment and competitiveness of the economy. Key program elements include maintenance of macroeconomic stability, accelerated reforms of state-owned commercial banks (SOCBs) and enterprises (SOEs), promotion of private sector development, and liberalization of the exchange and trade regimes. Vietnam's reform effort is also being supported by the World Bank's Poverty Reduction Support Credit (PRSC) of SDR 197.2 million approved in June 2001.

Starting in late 1999, the economy began to rebound and the pace of reform picked up. The recovery was driven in part by a revival of domestic investment in response to policy initiatives aimed at addressing structural weaknesses and strengthening competitiveness. Real GDP growth is estimated to have risen from 4¼ percent in 1999 to 5½ percent in 2000, spurred by strong domestic demand. Despite this, inflation was subdued in 2000 owing to excess capacity and a surge in imports. As a result, the external current account surplus (including official transfers) narrowed to 2 percent of GDP and gross official reserves rose moderately to reach US$3.0 billion at end 2000 (8½ weeks of prospective imports).

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

Under the first year PRGF-supported program, real GDP growth in 2001 was expected to remain relatively robust, inflation subdued, and the external position strengthened. Performance so far, has been in line with these expectations. Based on developments in the first nine months of the year, real GDP growth is now expected to be moderated to around 4¾ percent in 2001 owing to the weaker external environment, which has led to a slowing in exports. Inflation should be well below the target of 5 percent, and the external current account surplus should narrow only slightly. Gross official reserves are targeted to rise to US$3.6 billion (9½ weeks of prospective imports). External debt remains at a sustainable level, aided by the completion of a restructuring agreement in September 2000 under the Paris Club framework with the Russian Federation.

Macroeconomic policy implementation has been broadly on track, characterized by a prudent fiscal stance, credit restraint—including for the 200 large SOE debtors, and a more flexible exchange rate management. The overall government deficit (excluding onlending) was lower than expected in the first half of 2001 and, despite a likely significant boost in spending in the remainder of the year, should stay below 3 percent of GDP for the year. The credit stance was also tightened in the first part of 2001, with year-on-year credit growth at 29 percent in July 2001, compared with 38 percent in December 2000. Further credit restraint is programmed for the remainder of the year, even though inflation is subdued, to help stem banks' nonperforming loans. This credit stance will also be critical for strengthening the medium-term fiscal position.

Interest rate policy has been further rationalized with the introduction of the base rate mechanism in August 2000 and removal of caps on foreign currency lending rates in June 2001. These steps should provide banks with adequate flexibility in the current low inflation and interest rate environment and allow them to better price risks. Since May 2001, exchange rate management has also been made more flexible, with the dong depreciating by 3½ percent against the U.S. dollar since the beginning of the year. Moreover, to boost confidence, the foreign exchange surrender requirement was reduced in May from 50 to 40 percent. Continued flexibility in exchange rate policy should help to accommodate external shocks.

Progress has been made in structural policy implementation. Effective steps have been taken to ease entry for the private sector through sound implementation of the new Enterprise Law and amended Foreign Investment Law. Moreover, trade reform measures have been more ambitious than envisaged. Under the five-year trade regime announced by the government in April 2001, the removal of quantitative restrictions (QRs) on five items was completed ahead of schedule in May, and the timetable for QR removal on another five items was advanced significantly. However, there have been delays in banking and SOE reform. In the banking area, operating licenses of four problem joint-stock banks were withdrawn as planned in June 2001, but the restructuring plans for the four large SOCBs were only finalized and approved by the government in October—somewhat behind schedule. Each of these SOCBs is currently being audited on international audit and accounting standards, which is expected to advance the restructuring process, including an envisaged phased recapitalization of the SOCBs based on measured improvements in bank performance. Delays have also been experienced in implementing the three-year SOE reform plan adopted by the government in March 2001. At the same time, however, bank credit and budget support to the targeted 200 large SOE debtors has been curbed in line with program targets.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Vietnam's continued track record of sound macroeconomic management and progress in implementing key structural reforms, which have contributed to favorable economic performance under the government's reform program. Despite slowing exports, economic growth in 2001 is likely to remain relatively robust, with continuing low inflation and a strengthening of the external position. The recovery in investment, following the implementation of measures to promote private sector development and to open up the economy, is particularly encouraging.

Directors noted that the government's reform agenda has experienced slippages in some key areas. They stressed that firm and steady implementation of this agenda, together with continued sound macroeconomic policies, remain critical for returning Vietnam to its growth potential, accelerating poverty reduction, and helping the economy to weather the current uncertain external prospects.

While commending the authorities' prudent fiscal policies, Directors underscored that the continued fragility of the fiscal position will require sustained efforts to improve revenue and expenditure performance. Given the current difficult environment, Directors considered that there is room for cautious fiscal easing to support economic activity, while protecting the targeted budget deficit. Directors underscored the importance of adhering to the medium-term objective of stabilizing the ratio of public sector debt to GDP, and cautioned that the current fiscal stance and the government's budget framework for 2002 should remain consistent with it. Achieving this goal will require a strengthening of tax policy and administration to ensure adequate funding for needed structural reforms and associated safety nets and support for critical social and infrastructure sectors. In this context, Directors welcomed the authorities' intention to simplify the VAT law and to reduce distortionary exemptions. On the expenditure side, they suggested that additional measures should be considered, building on the recent strengthening of expenditure management, to track poverty-reducing expenditures, improve the transparency and efficiency of government operations, and contain the recent strong rise in the public wage bill. Directors stressed, in particular, that achievement of medium-term fiscal sustainability will require not only a cautious budgetary stance, but also accelerated reforms in the SOCB and enterprise SOE sectors.

Directors supported the tightening of credit policy in 2001. Even though inflationary risks appear benign, they agreed that continued credit restraint will be essential to help stem nonperforming loans at SOCBs and to strengthen the financial discipline of SOEs. Some Directors considered that, given high money and credit growth rates, underlying price developments will need to be carefully monitored in the period ahead. Directors noted that a restrained credit stance, coupled with a more effective monitoring of the debt of, and budget support to, the large SOEs will be key to strengthening the medium-term fiscal position. They also urged close prudential supervision of banks' foreign currency operations to limit the credit and liquidity risks stemming from the potential volatility of foreign currency deposits.

Directors welcomed the more flexible management of the exchange rate, which has helped protect Vietnam's competitiveness and external viability. They encouraged the authorities to further liberalize the exchange regime by phasing out the foreign exchange surrender requirement and the remaining exchange restrictions as soon as possible. They also supported the maintenance of a prudent external debt management policy, which will help keep medium-term external debt indicators within a sustainable range.

Directors commended the authorities for the recent bold decisions to liberalize trade, noting that firm and steady implementation of these decisions will help position Vietnam to benefit fully from a global upturn. They encouraged further efforts to promote private sector activity and foreign direct investment, noting that increased job opportunities in the private sector will be critical to offset the needed rationalization of the state-owned economic sector.

Directors welcomed the restructuring plans of the four large SOCBs, but noted that vigorous implementation of the plans with close oversight by the State Bank of Vietnam (SBV) will be critical to return these banks to health. They agreed that the SOCBs need to work toward substantially strengthening their credit risk management and make best efforts to resolve nonperforming loans based on international classification standards, in line with conditions set down by the SBV for a phased and orderly recapitalization. Directors also urged the authorities to accelerate the reform of SOEs by rephasing the reform timetable to make up for the delays so far in order to achieve the original three-year targets.

Directors commended the authorities for recent steps to strengthen policy transparency and encouraged further efforts to better inform the public of economic performance and policies, as this would improve investor confidence. Noting the weaknesses identified by recent Fund technical assistance, they also saw a further upgrading of Vietnam's statistical base as important for strengthening policy formulation and Fund surveillance. Directors welcomed the priority given to improvements in compiling the national accounts, and looked forward to a timely decision on Vietnam's participation in the General Data Dissemination Standards.

It is expected that the next Article IV consultation with Vietnam will be held on the standard 12-month cycle.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Vietnam: Selected Economic Indicators, 1997–2001

	1997	1998	1999	Est. 2000	Proj. 2001
			(Percent change)		
Real GDP	8.2	3.5	4.2	5.5	4.7
Inflation (period average)	3.1	7.9	4.1	-1.7	0.8
Money and credit 1/					
Broad money	26.1	25.6	39.3	39.0	23.2
Credit to the economy	22.6	16.4	19.2	38.1	21.0
Exports 2/	24.6	2.4	23.2	25.2	5.8
Imports, f.o.b. 2/	-0.2	-1-1	1.1	34.5	6.0
Real effective exchange rate	3.4	8.1	-6.2	-3.2	...
			(In percent of GDP)		
Saving-investment balance	-6.9	-4.6	4.1	1.7	1.2
Gross national saving	21.4	21.2	27.0	27.2	27.3
Gross investment	28.3	25.8	23.0	25.6	26.1
Government budget 3/					
Total revenue	20.0	19.6	19.2	20.6	21.6
Grants	0.8	0.6	0.6	0.4	0.4
Total expenditure 4/	22.6	20.7	20.6	23.1	24.9
Overall fiscal balance 4/	-1.7	-0.5	-0.8	-2.0	-2.9
External debt 5/	74.8	75.6	71.6	39.3	42.8
Convertible currency 6/	35.7	36.3	34.2	39.3	42.8
Nonconvertible currency	39.1	39.3	37.4	0.0	0.0
	(In billions of U.S. dollars, unless otherwise indicated)				
Current account balance 7/	-1.7	-1.1	1.3	0.6	0.5
(in percent of GDP)	-6.2	-3.9	4.5	2.1	1.7
Gross official foreign exchange reserves	1.9	1.8	2.7	3.0	3.6
(in weeks of next year's imports)	7.2	6.8	8.1	8.6	9.4

Sources: Vietnamese authorities; and IMF staff estimates and projections.

1/ Figures for 2000 and 2001 are based on expanded monetary survey (State Bank of Vietnam (SBV) and 89 credit institutions); for previous periods, based on original monetary survey (SBV and 28 credit institutions).

2/ Goods and nonfactor services, in U.S. dollar terms.

3/ Cash basis and excluding capital costs of reforms.

4/ Excluding onlending.

5/ London Club rescheduling was concluded in early 1998. Restructuring of the debt owed to Russia was concluded in September 2000 on comparable terms to the 1993 Paris Club

6/ Includes the loan component of foreign direct investment and other private sector borrowing, and short-term debt.

7/ Includes official transfers.

INTERNATIONAL MONETARY FUND

NEWS BRIEF

FOR IMMEDIATE RELEASE

News Brief No. 01/119
FOR IMMEDIATE RELEASE
November 21, 2001

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431

IMF Completes First Review of Vietnam's PRGF Program and Approves US$52 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review for Vietnam under the Poverty Reduction and Growth Facility (PRGF)[1] (see Press Release No. 01/12). The Board also approved the release of a further SDR 41.4 million (about US$52 million) from the PRGF arrangement, which would bring total disbursement under the program to SDR 82.8 million (about US$105 million).

After the Executive Board's discussion on Vietnam, Shigemitsu Sugisaki, Deputy Managing Director and Acting Chairman, made the following statement:

"The Vietnamese authorities have made commendable progress so far in implementing their three-year program. Economic performance has

[1] On November 22, 1999, the IMF's facility for low-income countries, the Enhanced Structural Adjustment Facility (ESAF), was renamed the Poverty Reduction and Growth Facility (PRGF), and its purposes were redefined. It is intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. At this time for Vietnam, pending the completion of a PRSP, a preliminary framework has been set out in an interim PRSP. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½ grace period on principal payments.

continued to be positive, despite the weakened external environment, and the adherence to sound macroeconomic policies and the firm implementation of the reform agenda will sustain further progress in raising growth and reducing poverty.

"The authorities' program continues to provide for a restrained credit policy and a cautious fiscal stance. Credit growth has fallen considerably so far in 2001 and a further deceleration is being targeted to help stem nonperforming loans (NPLs) at the state-owned commercial banks (SOCBs) and strengthen the financial discipline of state-owned enterprises (SOEs). The fiscal policy allows room for a slight easing to cushion the impact of the global slowdown on growth, in particular through higher social and infrastructure spending and to meet structural reform costs.

"Progress has been made in implementing key structural reforms, and the Executive Board commends, in particular, the authorities' recent trade measures, whose firm and steady implementation will help position Vietnam to benefit fully from a global upturn. Further efforts to promote private sector activity and foreign direct investment will also improve conditions for sustained growth.

"The Board looks forward to early and sustained reform of the state-owned commercial banks (SOCBs) and state-owned enterprises (SOEs), which is key to medium-term macroeconomic stability and growth. The government's recent approval of the restructuring plans and recapitalization guidelines for the four large SOCBs is welcome and should now be implemented vigorously under the close monitoring of the State Bank of Vietnam. Careful attention will need to be paid to performance against the specific milestones on the resolution of NPLs and strengthening of credit risk management, as key conditions for a phased recapitalization. Loan classification will need to be brought in line with international accounting standards at the latest by end 2001 to set a transparent and realistic basis for monitoring SOCB reform.

"It will be important to make up for the delays in SOE reform, so as to achieve the original program targets. Early actions needed to accelerate reforms include the issuance of debt restructuring and safety net guidelines, steps to strengthen the integrity of the equitization process, and the publication of a detailed three-year roadmap," Mr. Sugisaki said.

Statement by Dono Iskandar Djojosubroto, Executive Director for Vietnam
November 21, 2001

On behalf of my Vietnamese authorities, I would like to express my appreciation to the Fund staff for their unyielding efforts in working closely with the Vietnamese authorities to complete the 2001 Article IV Consultation and the First Review of the 3-year medium-term economic program supported by the Poverty Reduction and Growth Facility (PRGF). We look forward to continued close cooperation between the Fund staff and the Vietnamese authorities in the years ahead.

In 2001, the Vietnamese authorities stayed the course in pursuing comprehensive reforms while maintaining sound macroeconomic policies. The economy is performing relatively well considering the global downturn and the domestic difficulties caused by natural disasters. Macroeconomic policies are generally on track. The authorities managed to maintain high growth in the industrial sector, continued to promote the growth of the services sector and enhanced socio-cultural performance in various areas, including poverty reduction and job creation. All of these were achieved while keeping appropriate restraint on inflation. The government's budget revenues were also favorable.

However, given the global downturn, coupled with various domestic and external difficulties, the Vietnamese authorities have revised some of their economic targets downwards. Although the revised growth projection is not as high as originally targeted, the Vietnamese economy is still expected to grow by around 7 percent in 2001, which is relatively high when compared with its neighboring countries. The industrial, agricultural, and services sectors are estimated to grow by 10.7 percent, 2.6 percent and 6.6 percent, respectively. Per capita income has grown to above US$ 400 in 2001. Inflation remained subdued, with an annualized rate of -0.4 percent in October 2001. Export performance is favorable but still below the target level because of various problems in the global market. Total export value in 2001 is now expected to grow by 8 percent instead of the targeted 16 percent, while total import value is expected to grow by 2.3 percent.

All economic sectors have contributed to the growth of the economy, with the private sector playing an increasingly important role. In spite of declining foreign investments, gross national investment for 2001 is expected to increase by 24.7 percent compared with last year. The completion of the procedures for the ratification of the Bilateral Trade Agreement with the US and the ongoing negotiations for Vietnam's accession to the WTO are testimonies of Vietnam's commitment to accelerate its trade reforms and seek greater integration into the global economy using a well defined roadmap. The Vietnamese authorities are doing their best to overcome the current difficulties and challenges to create the prerequisites for faster and more sustainable economic development in the coming years.

Since the Board's approval of Vietnam's PRGF in April 2001, the authorities have undertaken enormous efforts to meet its commitments in the structural areas, namely the reform of its banking, state-owned enterprise (SOE), and trade sectors. The objective of these reform efforts are, in the first place, to benefit the country itself as they are needed to accelerate economic development towards achieving the ultimate goal of alleviating poverty amongst its population.

Given the circumstances, fiscal policy remains prudent to meet the necessary cost of structural reforms. Budget expenditures are focused on key social services, especially primary education and basic health care, as well as basic economic and social infrastructure, particularly in the rural areas. The authorities are seeking to limit the overall budget deficit within the range of 3-4 percent of GDP. As regards monetary policy, the authorities are implementing a prudent credit policy with emphasis on credit quality. Furthermore, the authorities are pursuing appropriate interest rate and exchange rate policies to enhance public confidence in the domestic currency. The exchange rate is being managed more flexibly to better reflect market conditions.

With regard to banking reforms, the authorities aim to build up a sound banking industry and improve the efficiency of financial intermediation. To this end, Vietnam has adopted an overall reform plan designed to maintain the stability of the banking industry, consistent with the program's medium-term macroeconomic framework. This is being supported by individual reform plans for the large state-owned commercial banks (SOCBs) to focus on restoring and strengthening their financial soundness, efficiency and competitiveness.

As for the SOE reforms, in September 2001, the Third Plenum of the Central Committee of the Communist Party of Vietnam adopted a Resolution setting out the guidelines and tasks for the periods of 2001-2005 and 2001-2010. The Resolution outlines overall solutions to restructuring SOEs and improving their management. This is an important milestone which reflects the authorities' firm determination to accelerate the process of SOE reforms. As a necessary adjunct to SOCB reforms, the Vietnamese authorities aim to reinforce this program over time by including additional nonviable loss-making SOEs for closure or liquidation, and highly leveraged SOEs in the list of enterprises to be subject to reform. In addition, private sector development is another priority which has been facilitated by various measures adopted by the authorities, including the recent adoption of the Enterprise Law.

Trade liberalization has been faster than expected to meet the commitments under the ASEAN Free Trade Area (AFTA) and the recently concluded bilateral trade agreement with the United States. Trading rights for domestic firms have been fully liberalized. As a result, the commitments under the program have been accomplished ahead of schedule.

In poverty reduction, the relevant Vietnamese authorities have begun to draft the full Poverty Reduction Strategy Paper with the assistance of the World Bank and IMF, and have benefited from wide participation by concerned ministries, agencies, and representatives of the donor community and NGOs. According to the schedule, the first draft will be presented to the upcoming Consultative Group Meeting in December, and the final version will be completed in the first quarter of next year to be submitted to the Prime Minister for approval. According to the new poverty line, there are presently about 2.8 million poor households country-wide, accounting for 17.2% of the total number of households. Recently, the authorities approved the national programs for poverty reduction and job creation for 2001-2005, aiming to reduce the proportion of poor households to 10% by the end of the period. The authorities are determined to make full use of all available resources to improve basic infrastructure for economic development, paying special attention to the rural and remote areas.

In conclusion, I would like to reiterate the Vietnamese authorities' determination to fulfill the commitments under the PRGF, and look forward to the Board's understanding of the difficulties and challenges which could arise unexpectedly. With the enormous efforts of the Government and the people of Vietnam, coupled with the support and assistance of the international community, Vietnam will be able to make as much progress as possible on the back of increasing globalization. In this context, the Vietnamese authorities highly appreciate the support of the Board to complete the first review under the PRGF. The authorities continue to value highly the assistance provided to them by the international community, particularly the IMF.